JOSEPH M. BELTH

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AMERICAN ASSOCIATION OF UNIVERSITY TEACHERS OF INSURANCE

VOLUME XIX, No. 1 MARCH, 1952

PROCEEDINGS

of the

SIXTEENTH ANNUAL MEETING

BOSTON, MASSACHUSETTS

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ORDERS FOR PUBLICATIONS AND INQUIRIES REGARDING MEMBERSHIP SHOULD BE ADDRESSED TO THE SECRETARY OF THE ASSOCIATION, SCHOOL OF BUSINESS, INDIANA UNIVERSITY, BLOOMINGTON, INDIANA.

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Part I — Papers Read at Annual Meeting

Introducing and Developing Insurance In A Curriculum

By

Hampton H. Irwin, Wayne University

The topic assigned to me, "Introducing and Developing Insurance in a Curriculum" is obviously so broad that to treat it adequately would require a paper many times the length allotted to me. Accordingly I shall limit the scope of my discussion to a consideration of insurance with respect to professional schools of business administration. Although this narrows the field considerably, it would seem that anyone interested in the subject from the standpoint of the Liberal Arts college either as a separate entity or as one of the colleges in a university might well find many points applicable to his specific problem. This is particularly true because most of what I shall have to say will be of such a fundamental nature as to apply equally well to all types of colleges but I shall address myself specifically to the professional school of business administration.

The question immediately arises as to what we mean by insurance and as starting points I have chosen two definitions of insurance proper upon which to build our discussion. First is the definition found in the "Dictionary of Insurance Terms"[1] edited by Professor Ralph H. Blanchard which, with his customary economy of words, is listed as follows:

> "Insurance: (1) a pooling of hazards in order to indemnify those who experience losses. (2) The contractual relationship between the insured and the insurer who agrees, in return for a premium, to indemnify the insured for losses due to specified causes; in some cases, includes specified services."

For the second definition of insurance I am indebted to another member of the American Association of University Teachers of Insurance, Mr. Edwin J. Faulkner who, in his excellent book "Accident-And-Health Insurance,"[2] says,

> " . . . Insurance coverages operate on the premise that the loss can be predicted for a group large enough to permit an average experience and the cost so determined apportioned among the members of the group."

I have chosen these definitions for our consideration because they seem to me to imply *what insurance does* as well as what it is and the

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1. *Dictionary of Insurance Terms*, Insurance Department, Chamber of Commerce of the United States, January 1949, pp. 33.

2. Faulkner, Edwin J., *Accident-And-Health Insurance*, McGraw-Hill Book Company, Inc., New York, pp. 281-2.

burden of my paper will be along the lines of what insurance does. When I ask you to focus your attention primarily on what insurance does, I am not thinking in terms of the techniques of writing insurance or fitting a particular policy to a specific situation and the like, because these matters have to do with the professional aspects of insurance; rather I have in mind a consideration of how insurance operates in our national economy, how it meets the almost infinite number of risks which arise in business and personal affairs and the services which can be rendered only through the medium of insurance. Using these definitions as the basis then, let us take the next step and say that insurance in the sense in which we shall use the term will apply to courses of study which deal with and implement the principles referred to by Professor Blanchard and Mr. Faulkner. One further observation should be made. The field of insurance from an academic point of view may be divided into two main sections, (1) the so-called survey course which is a basic course covering the fundamental principles common to all branches of insurance with particular emphasis on the highlights of the various specific fields and their more important subdivisions; and (2) professional courses which are built upon the foundations laid in the survey course and which are intended for those who wish to pursue some professional aspect of the field. I am sure many of you could give a much more precise definition of what we mean by insurance and its present application but as a working basis can we agree that the above outline of the points involved will be sufficient for the purpose at hand?

Assuming your acceptance of my concept of insurance as it applies to this paper, I should like to discuss the topic along two broad lines; first, as to the reason why insurance should be introduced into a curriculum and, second, some procedures which might be considered. Well do I realize that this is an unorthodox approach to the subject for does it not go without saying that insurance is of such transcendent importance that there can be no question whatever but that it should be introduced into every curriculum professional or general? Personally, I believe in this point of view and I think it will strike a sympathetic chord with most, if not all, of you but that is precisely why I wish to examine it rather critically. Because, unfortunately, we can not take for granted that because insurance is so important it should **ipso facto** receive universal acceptance in college curricula and it is my feeling that one reason why we have not made more progress in the past is because too many of us — myself included — have operated on just that assumption.

My major premise is, then, that we must assume that those who are not professionally interested in our field are necessarily uninformed about it as we understand it and appreciate it. This is another way of saying that the practitioner or specialist in one field is by that very fact ignorant to a greater or lesser degree in every other field. A friend of mine for whose judgment I have the utmost respect, claims that most texts on salesmanship are deficient in that

they do not stress the fact that it is utterly impossible to overestimate the ignorance of the prospect. I feel that we in insurance have been particularly vulnerable along this line and if we are to introduce insurance into the curriculum and build it to its proper position of importance, we shall have to become salesmen. Therefore we would do well to follow the principles of salesmanship as we attempt to get the acceptance we desire on the part of colleges and universities for our field.

One of the generally accepted principles of selling is that the conclusion should never be mentioned first to be followed by the reasons therefore; rather, the reasons should be given first with the conclusion following. Thus we have been inclined to stress the conclusion that insurance is extremely important because it does this and that and the other thing. I submit that perhaps it will be more effective if we will emphasize the various advantages which only insurance can provide and then point to the conclusion that insurance is a basic collegiate course par excellence. There is a vast difference between the two and this I will develop later by using an example or two. Before doing so, however, I should like to consider a fundamental question. Why should insurance be introduced into a college curriculum, and if it is already introduced, why should it be expanded?

Keeping in mind that we are referring specifically to professional schools we may well ask ourselves why students come to college — what they expect to get. Reduced to its simplest terms, I suppose there would be agreement, at least in principle, with the thought that the school (a) should provide certain fundamental knowledge and (b) should provide an opportunity to solve problems imported from business fields so that students may become aware of the conditions which will surround them in actual business situations and (c) should provide opportunity to mix — to understand individual human beings, their motives, their aims and how to get along with them. The school with which I am associated feels that its main objective is to train its students in management techniques. It further emphasizes that the problems of getting along with people are of paramount importance. In training our students we try to make them conscious of the problems they will meet. For example, we have courses in law, not to make lawyers out of them (we have a Law School for that) but in order that they may recognize a legal problem when they see it and know where to get the technical help needed and have a sufficient understanding of the problem to know and evaluate the factors involved which the lawyer will discuss with them.

Now let us definitize our problem of introducing and developing insurance in a college curriculum by using an example to see whether insurance really does belong in such a curriculum. Perhaps one of the greatest problems in education is the lack of carry-over. Look at it from the grade school angle. The teacher stresses neatness in arithmetic papers in season and out and eventually obtains a varying degree of neatness in arithmetic papers. But un-

fortunately the neatness of the arithmetic papers does not carry over to any great extent to the spelling papers. In other words there is little if any correlation between neatness in arithmetic papers and neatness in spelling papers unless the emphasis is placed on neatness as such. If the habit of neatness is stressed, then the idea carries over to the student that not only must his arithmetic papers be neat but his spelling papers must be neat, and his composition papers must also be neat, etc., etc. We meet this same problem in the professional school of business. We try to make the student aware of certain conditions which will confront him. But we must somehow help him to carry over the information he learns in one field to a problem which comes up in an entirely different field but which might be solved by the same principles which the student already knows in a different connection. When this method is used successfully, then the student may be said to be making real progress.

Let us consider an example of this type of reasoning. Suppose we have a situation where there is an adequate survey course offered and an earnest student comes to one of you as his adviser and asks you whether you feel that a survey course in insurance is of sufficient importance to him inasmuch as he is an accounting major (or a personnel methods major, or what have you?). He knows there are such things as fire insurance, automobile insurance, burglary insurance and various group coverages but beyond that his insurance knowledge is not too inclusive. Suppose as good teachers we "proceed from the known to the related unknown" and use one or two business situations to illustrate our reasoning. For instance, we might first get agreement on the point that the principal purpose of business is to make profits and anything which reduces profits must be guarded against. Consequently anything which can prevent or reduce profits is worthy of careful study. He knows, of course, that if a plant burns to the grounds there will be serious inroads on profits if there are not sufficient funds forthcoming from fire insurance to rebuild it, but all too often he has not given any attention to the fact that while the plant is being rebuilt, which may be a matter of some three to six months or longer, there are no profits. Then too, since he is an accounting major, he will be interested in the matter of depreciation. It may come as a surprise to him that the adjustment of a fire loss will depend upon a rather exact determination of depreciation, even carried to the point where the varying rates of depreciation for the different parts of a particular machine must of necessity be taken into account.

He realizes that a firm can not pay dividends out of the premiums that pay for insurance and therefore you reassure him that it is indeed easy to be "insurance poor." This in turn gives you the opportunity to point out that it is a matter of management judgment as to which risks he as a manager might be willing to assume himself and those which he should pass on to an insurance carrier. Again, he must be warned to keep in mind what might happen to profits if a certain risk should materialize.

At this point in the discussion you might ask him if he is willing

to accept the proposition that an insurance company must receive in the aggregate $1,000 from all sources for every $1,000 it pays out, or go out of business. You would, of course, hasten to explain that technically it must receive the $1,000 plus the cost of doing business which includes a reasonable profit. In my own experience I have had more than one case where the student felt that the insurance company need not receive a thousand dollars for every thousand it paid out. This leads, then, to the conclusion that there is no Santa Claus in insurance and, further, that the primary purpose of insurance is to provide certainty and an orderly way to meet inevitable losses.

As the conversation continues you indicate to the student that the survey course is not intended to make him a specialist in insurance, but that it will give him an awareness of the various risks which inevitably accompany a business venture. In practice he will call in an insurance specialist and as the result of this course he will be able to understand the significance of the exposures to which he is subject and can weigh the merits of the plans suggested to meet them.

Perhaps your student might rise to a position in management where he would be responsible for erecting a new building. True he is not an architect but you can explain to him the significance of the statement that "the time to fight fire is at the drawing board." And again, his responsibilities as manager might lead him to a consideration of such problems as coinsurance. You indicate that this is a means of reducing the rate but that it carries with it certain obligations which must be fulfilled otherwise penalties will be involved. Then since his field is accounting, and naturally his confidence is great in the ability of the accountant to be the financial watchdog of the business, you might suggest a thought which appeared recently in some sales literature: "Accounting systems, periodic audits, examiners, investigations, reviews, inspections, safeguards, controls, precautions, rules — and 'oldtimers who have been with the firm twenty-five years' — all these do not pay dishonesty losses. But Fidelity bonds do!" And the newspapers supply the proof to him daily of the force of this statement. Perhaps a knowledge of the principles and background of bonding might be quite useful information for an accountant to have.

It is just possible that this business we have been talking about might be a close corporation and he might eventually become either a majority stockholder or a minority stockholder. If so, he will be concerned with three unescapable problems. First of all, there will be the problem of continuity of management which means that in the event of the death of one of the stockholders his stock should go to the others and the purchase price should go to the heirs of the deceased stockholder. In the second place, since the Internal Revenue Department seems to need money these days there will be the problem of establishing a reasonable value of the business which will be accepted by the tax authorities at the time of the death of a stockholder as a basis for the Federal Estate Tax. And in the third place, there is the ever present problem of eliminating adverse interests in the event of the death of a stockholder. To solve these three problems will require a binding buy-and-sell agreement between the stockholders

properly drawn and executed. Furthermore, after an examination of every possible alternate method of financing the agreement it will be found that life insurance will be by far the most effective means to that end if the individuals involved can qualify for it.

As teachers of insurance you realize that I have covered but few of the innumerable points to which reference might be made. But can we not agree that a student counselled in this manner will get some idea of the part insurance plays in the conduct of business to say nothing of its importance in his own personal financial problems? Now we are in a position to say that because of these services and many many more about which we have not even hinted, we feel that insurance is tremendously important and we would advise the student to take it regardless of what other courses he might elect. To further clinch the point we might refer to the great importance of the liability coverages. Our student should get the impression that people do not sue a bankrupt concern and consequently if he is successful in business the pitfalls of liability suits, faked claims, etc. await him at every turn. Now he begins to get some conception of the importance of becoming cognizant of the hazards he must confront in the business world. In my judgment, this is the type of sales presentation which can be used as effectively in introducing insurance into a college curriculum as in introducing a prospective student to the advantages to him which is offered by such a course.

Again, if we are to develop insurance to the extent its merits deserve it will be necessary for you and me to sell our colleagues at every possible opportunity on the advantages which courses in insurance provide. As specialists in insurance surely our colleagues will be willing to listen to our appraisal of the subject. All too often we have taken for granted that they understand and appreciate insurance as we do although we know this cannot be true. I feel that you and I must take every means within our power to correct this situation. Then when students go to our colleagues for advice and the subject of insurance is mentioned the counsel given will be more intelligent and helpful. .

The object of our discussion thus far is to show that insurance is at the heart of all business enterprise. Accordingly we may properly advocate it as a course which should be included in every well-rounded program of instruction in business administration. The expansion of insurance into a curriculum itself begins when students wish to pursue additional courses leading to a major in insurance and thus prepare themselves professionally for the insurance business. The further development of insurance into a curriculum comes when its importance is recognized as so great that it is established as a core subject and thus is required of all students for a degree. The claims of insurance for recognition as a core subject might properly be a subject of a paper in itself. But suffice it to say here that its justification might well follow along the lines we have just been discussing.

If we may assume that we have answered to our own satisfaction and in the affirmative the question of whether insurance should be introduced into the curriculum, let us turn to the second matter to

be considered, namely, the procedures which must be considered in introducing the course. While we are considering the case with respect to a school of business administration the reasoning and procedure are likely to be quite similar to those followed in the case of a liberal arts college. Following are some points which may be involved:

(1) Does it belong in a professional college? We have already given one answer to this question on the ground that it contributes to the general pupose for which the school is established.

(2) Will the course be locally accepted? In other words, is there a sufficient number of interested and eligible students available? This consideration may loom large at the beginning but once the course is introduced, the number of interested students may be expected to increase.

(3) Does it fit into the general pattern of the school? This is particularly applicable to schools located in large cities. It may be that this service is already being offered elsewhere in the field. Probably this question does not apply so much to a survey course as it does to a professional course. Thus other schools might be offering courses preparatory to the CPCU designation or the CLU designation. Possibly students seeking courses leading to those designations might better be referred to such schools. Thus a helpful spirit of cooperation can be fostered for the good of all concerned.

(4) Is there budget clearance? It goes without saying that the necessary budget limitations must be considered before the course can be scheduled.

(5) Is there classroom space available? This may seem a rather superfluous question to some of you but I assure you that at Wayne University it is quite important.

(6) Can a qualified and locally acceptable instructor be obtained? Here indeed is a serious problem. Although no statistics that I know of are available there seems to be a general agreement that qualified teachers are in great demand. Likewise no one can say with any degree of accuracy how many schools would be willing to introduce an insurance course if such instructors could be obtained. On the credit side of the ledger is the encouraging progress made by the Huebner Foundation under whose auspices an increasing number of students are pursuing work at the graduate level to prepare themselves for careers in teaching insurance.

While we are discussing the matter of qualified teachers it seems to me that we should properly consider other factors in addition to academic attainments on the part of the teacher. The emphasis placed upon the ability to get across to the student the subject of insurance in terms of what the various branches contribute to the operation of the industrial and business machine to say nothing of the part insurance plays in the personal well-being of the individual — this approach, it seems to me, demands in addition to academic achievement as practical a knowledge of insurance as can be obtained. This is simply another way of saying that if we are to interpret the functions of insurance and get the carry-over which a

sympathetic understanding of its services can provide, the instructor should, ideally at least, have some background of practical experience either in the field or the home office or both. It may be true that too few experts can tell what they know, but if so, it may equally be true that too few who are academically trained know what to tell.

Well do I realize how difficult it is to get such a combination of academic and practical experience and yet I believe much can be gained by recognizing the value of such a combination and setting that as a goal toward which to work. But this need not be entirely in the realm of the ideal. For example, under the auspices of one of our own committees — The Committee on Insurance Company Fellowships for College Teachers of Insurance — an opportunity is given for college teachers to spend varying lengths of time in the summer at insurance company home offices. The Foundation for Economic Education, Inc., through its Fellowship in Business also provides facilities for teachers to do research work in business institutions, and life, property and casualty insurance companies are included among the firms cooperating. It is my understanding that while teachers of insurance are preferred in granting these fellowships on the part of our Committee, still there is some feeling that teachers of economics and general business subjects might well be included.

In addition, trade associations are becoming increasingly sensitive to this problem and are making it possible for college teachers of insurance to see at least a segment of the insurance business at close range. I can speak with firsthand experience in this regard because last summer I spent a most profitable week in Chicago together with seven other college instructors as the guest of the Western Underwriters Association. It was a great privilege to see how the fire and casualty business is administered at the top level. I had the opportunity to compare it with the operation of life companies and to see how the practical day to day problems were handled through the various companies and organizations.

I believe that the individual instructor who, in addition to discussing what insurance is and all the academic implications thereof, nevertheless places his main emphasis on the interpretation and understanding of the practical value of insurance, is the key to the acceptance of insurance courses generally. Likewise I believe that this point of view amounts to little more than abstract theorizing unless the instructor himself has both the academic and practical background. Such a background gives him a solid foundation of knowledge and this knowledge gives him self-confidence, which in turn gives him enthusiasm for his subject. It is axiomatic in salesmanship that knowledge does not make the sale nor does self-confidence; rather it is enthusiasm backed by self-confidence which in turn is rooted in knowledge both academic and practical.

If I were to go a step further and indicate the ideal combination I should be inclined to point out that a knowledge of the principles of teaching is highly desirable. That this point of view is receiving increasing recognition may be shown by the experience of the Ameri-

can College of Life Underwriters and The American Institute for Property and Liability Underwriters, Inc., both of which felt it necessary to provide for the use of their instructors rather pretentious teacher's manuals. To insist upon pedagogical training is perhaps "reaching for the moon;" certainly it is "hitching one's wagon to a star." Nevertheless, professional training in teaching is highly desirable even though it may not always be feasible.

However, not always will the insurance course be taught by an instructor hired full time for that purpose. And when an insurance course is entrusted to the tender mercy of, let us say, a professor in charge of real estate (I substituted for one such individual some years ago at one of our state universities), or more likely when it is given over to an actuary or a mathematics instructor or to an instructor of economics, what happens? It is quite likely that in such cases the mathematical aspects of insurance, important though they may be, will be stressed and considerable time will be given to the structure and functioning of home office organizations, the ramifications of state and federal regulations, etc., etc. In my judgment, these things, though desirable and necessary to a certain extent, particularly in advanced courses, will not of themselves justify the acceptance of insurance at the level at which I believe it is entitled to operate.

I have stressed the importance of a qualified instructor in the procedural consideration of the problem because, however important the other factors may be, the presence or absence of a qualified instructor will be a most important factor in deciding whether the course will be introduced and by all odds it will be the controlling factor in its successful development.

(7) Is there a local group of interested practitioners who will speak well of the course? Perhaps one reason for the rapid growth in number and size of collegiate schools of business is the increasing interest of business and industry in the work of such schools generally and in specific fields of major interest. Consequently the administrative officer weighing the problem of introducing insurance in his curriculum may well take into account the interest of our own fraternity, both property and casualty on the one hand and life on the other, in seeing such a course introduced in his particular college. In passing let me suggest that a committee of the leaders in the two fields might act in an advisory capacity to the school and particularly to the instructor and serve as a court of appeal for him in the many problems of practical importance which continually arise. I might add that while I know of no chair of insurance which has been established as yet in any college or university, nevertheless I know that it is our hope that the field of insurance may be honored by the establishment of chairs of insurance as has been the custom in other fields of interest.

(8) Will the end product, the student, be provided with suitable opportunities for employment? Certainly the administrative officer will weigh this heavily and perhaps no other single factor will determine whether insurance shall remain as merely a survey course or shall expand along professional lines as well. Perhaps this particular

topic should have received a larger proportion of our attention, but suffice it to say here the earnestness of the insurance fraternity, both home office and field, will be judged most accurately on this count. Here indeed is an objective measurement and it is one in which the school cannot, of necessity, play too direct a role. It would seem a truism that the business of insurance must get its proportionate share of the top brains of the oncoming generation if the business is to prosper, but unfortunately that point of view does not seem to be universally recognized in practice by the industry however much it may subscribe to the principle involved. Certainly then, here is a factor which will vitally affect both the introduction and development of a curriculum in insurance courses.

In conclusion, I should like to emphasize again that the degree of success in introducing and developing insurance in the curriculum depends largely upon two vital considerations: (1) our ability to sell to administrative officers, to our present and prospective students and to our colleagues the concept of insurance as a subject interwoven inextricably into every branch of business and (2) meeting satisfactorily certain procedural conditions particularly with respect to adequately trained and experienced teachers and with respect to adequate business opportunities for the graduates of our courses.

Discussion

By

William T. Beadles, Dean, Illinois Wesleyan University

Mr. Irwin has empnasized, and very properly, the place of life insurance courses in the professional school of business. Therefore his illustrations were all from the field of business. He rather apologized for his unorthodox procedure in raising the question as to whether insurance should be taught at all, in separate courses that is.

That, however, is the basic problem which we who are in liberal arts schools face. We can't use his illustrations of the importance of insurance in relation to business, for our faculties won't allow too many business courses either. In introducing these insurance courses into our liberal arts schools, we have to follow an entirely different approach.

Since it is claimed that the liberal arts school is primarily concerned with its students as persons and not as prospective businessmen, I emphasized to my faculty the personal aspects of insurance. In other words, as I see it, we must show how insurance courses are related to or contribute to the achievement of the basic aims and purposes of the liberal arts college.

Inasmuch as one of those aims is to help the student to prepare for all of the rest of his life, not just the limited, though important, aspect of earning a living, I point out that all of our students will be buyers of insurance and that they should have more than just a casual acquaintance with it. Too, I emphasize that life insurance will probably be the most important single purchase or class of purchases that these young men and women will ever make.

I could echo a hearty "amen" to Mr. Irwin's statement that we must assume that those of our colleagues in other fields who are not, shall we say, wildly enthusiastic about our subject, are probably uninformed about it. In that respect, our problem in the liberal arts college is about the same as his. One thing is sure, without some selling on our part, few teachers of English or chemistry are going to take the initiative in demanding that insurance courses be offered in our liberal arts colleges. We must be both salesmen and missionaries, or perhaps the order should be reversed.

Mr. Irwin's illustration of the course in Business Law being set up, not to make lawyers, was especially pertinent to the question of insurance courses in a liberal arts college. Since we are not training people for any profession, except that of life, we, too, can justify our insurance courses in his own words, slightly paraphrased:

> "Our courses are not aimed to make insurance experts out of them, but instead to help them recognize an insurance problem when they see it, and to know where to get the technical help needed, and to have a sufficient

understanding of the problem to know and evaluate the factors involved which the insurance expert will discuss with them."

I am not going to discuss the speaker's illustrations of the importance of insurance courses to the accounting student; it was an excellent presentation, but it, too, will not help us liberal arts teachers much. After all, as suggested previously, the strictly business subjects are not viewed with great enthusiasm by the faculty of the typical small liberal arts college, although I hasten to add that this prejudice is gradually being overcome in these days of declining enrollments, when the other faculty members see that students do come to such schools in order to get some business courses along with the general liberal arts subjects.

On page 10, when he was two-thirds through his paper, Mr. Irwin gave the conclusion toward which all of his well chosen illustrations were aimed, "Insurance is a course which every well rounded student of business should have."

You knew in advance that, sooner or later, he would reach that conclusion and he gave it to you without your having to send in any box tops. Similarly, it will save your time if I tell you now, without giving any of the fine illustrations which are available, that my conclusion is the same as his, with two of his words "of business" deleted.

In his words, thus changed, my conclusion is that "Insurance is a course which every well rounded student should have," and I'm trying to emphasize this morning that this is the theme song which must be sung again and again for the liberal arts faculty.

After we show the basic importance of insurance to every college student, and have thus proved our point, then we can throw in the more or less strictly business applications for good measure. (All this, and heaven, too!)

My procedure, years ago, was to try to make a package sale, on a programming basis. I convinced my faculty that our students needed a package, as follows:

1. Consumer Problems and Consumer Economics
2. Managing Personal and Family Finances
3. General Insurance

The insurance course, obviously, was the hardest one to sell, so I settled for a one-semester, two-hour course. All I wanted was the start, and that course soon gave way to two separate semester courses of three hours each. That jump from two to six hours of straight insurance courses is about all that can be expected in a small liberal arts college. Even so, it is my hope that our next step will be to substitute two separate three-hour courses for the one we now have in property insurance. That is my next goal — and one does learn patience by teaching in a small school. The presence of a three-hour course in social insurance in our curriculum for the past three years is additional evidence that this patience does pay off.

Since good salesmanship involves constant attention to the long-range, as well as the immediate goals, I suggest, seriously, that we keep in mind that our job is not completed until we have made insurance one of the required courses of study.

Speaking of the small school, as I have been all along, I am reminded that Mr. Irwin mentioned availability of classroom space as one factor in determining whether the course will be introduced into a given college. May I suggest, in the traditional Mark Hopkins spirit, that there is as yet no serious scarcity of logs!

Here we are, right at the end of the paper I am supposed to be discussing and I have found nothing on which to comment adversely. That cannot, that must not be. There can be no surer sign of one's lack of fitness for this job, than his failure to find fault with his colleague!

So I must search further. Ah, here it is, I'm saved! As Mr. Irwin is a former practitioner, turned teacher, he insists, with obvious sincerity, that the ideal teacher should have some background of personal experience, either in the field or in the home office. I, as a teacher, without any of that practical experience, say, with equal sincerity, that I don't believe it!

Perhaps if I were pinned down on the word "ideal," I might give in a little but not very much. For my teacher, I want knowledge and enthusiasm for insurance, plus teaching ability. Assuming the teaching ability, which really cannot be assumed, I would say that intelligent enthusiasm, enthusiasm and love for insurance, based on knowledge, is sufficient. And I would say further, that practical experience is only one of several methods by which that intelligent enthusiasm can be secured, and that it is not necessarily the best method.

That is a pretty small point on which to argue, but at least I have shown that I can find fault and perhaps that should demonstrate my qualifications both to discuss papers, and perhaps to teach graduate courses!

Finally, let us not overlook or sell short this liberal arts college aspect of these courses in insurance. Their graduates will all be consumers of insurance, and intelligent consumers are a real asset to any worthwhile business. Many of their graduates, who received their first introduction to the study of insurance in these classes I have been talking about, will go into insurance work and will show up well in competition with the graduates with the schools of business. Here is a vast potential! It is harder to introduce these courses here than it is in the schools of business, but from the long-run point of view, it may be the more important. Truly the harvest is about ripe, and the laborers in this area are too few.

Discussion

by

Herbert C. Graebner, Butler University

Whenever a business executive is faced with the question of whether a new line should be added to his offerings, he asks himself a series of questions. Among these questions are the following:

(1) Is the new line likely to sell?

(2) Can it be handled by our present organization?

(3) Can we afford the initial capital outlay required?

(4) Can it be handled profitably?

A college or university is confronted with similar questions in regard to its curriculum. We perhaps would rephrase our questions in order to remove somewhat the harshness of the terms "profit" and "sell". Our first problem is to determine if the proposed course serves a genuine need. In order to answer this the college must be aware of the changing emphasis in business and industry and the changing attitudes of its constituency. Then follows the problem of reviewing the present curriculum to determine if the introduction of a new program, such as insurance, would result in undesirable duplication of subject matter.

After deciding that the course will serve a genuine need and that no undue amount of undesirable duplication will result from the new program, we move to a more difficult question — Is the new program academically acceptable? Academic acceptability is not easily defined. If it can be established that the proposed curriculum will stimulate the student's mental discipline, develop his aesthetic susceptibilities, contribute to his understanding of the growth of human culture, and enable him to improve his skills in the fields of communication little difficulty will be encountered in the typical faculty committee which stands guard over the university curriculums.

The importance of this question of academic acceptance varies with different institutions. In our institution a change in curriculum must be approved by two committees. First, within the College the faculty must approve and then the request for change goes to the University Curriculum Committee composed of representatives of all the Colleges and several administrative officers. Much could be said about the problems of dealing with these committees, particularly the latter, but suffice it to say that the integrity, tact, and diplomacy of the petitioner can be of great assistance in getting a desirable change approved.

The problem of teaching staff is of paramount importance. My own judgment is that it is much better not to offer the newly accepted curriculum or course until and unless a qualified staff is found to teach the courses. What is meant by "qualified" staff will, I suppose, vary among different administrators. There is real danger in having someone teach the new courses who is not sufficiently well

trained in the subject matter as well as in related disciplines.

The budgetary problem of capital outlay is one which the administrative officer has to face, but if there is a need and if the new program is academically justified the problem of appropriation of funds will be less difficult.

Deans of Schools of Business are called upon by business men representing many particular areas of the business community. For example, in recent months groups interested in promoting education at the University level in the following areas have come to my office: traffic, credit, purchasing, controllership, statistical quality control and real estate. I mention these to suggest that those of you interested in promoting courses in insurance realize that your subject area is one of several which is being recommended for inclusion in a College of Business program of business and economic education.

Let's move on to the question of what we as teachers of insurance and you in the insurance industry can do to develop programs of insurance education in our colleges and universities. In a splendid article, "Higher Education in Insurance — Our Growing Strength," which appeared in the December, 1951 issue of the Chartered Life Underwriter Journal, Mr. Raymond C. Johnson identifies two major goals. They are:

(1) Strive to have basic insurance theories taught in all colleges and universities. These courses are to serve two chief purposes.
   (a) To cause people to realize the risks they bear.
   (b) To get insurance used effectively by the majority of people.
(2) Develop educational programs preparing for professional insurance careers.

Specifically what can we do in the Association to implement these goals? Here is a list of suggestions:

(1) Work with academic institutions where insurance courses are not being offered at present.
(2) Offer services such as occasional special lectures, to neighboring institutions. Talk to future teachers, economics classes, consumer courses.
(3) Check textbooks in fields of economic principles, finance and consumer economics to determine the adequacy and accuracy of authors' treatment of insurance and risk.
(4) So conduct ourselves on our campuses in order to influence our colleagues favorably for insurance education.
(5) Work closely with placement offices in order to guide the placement of the insurance graduates
(6) Work with local public school administration by participation in student guidance, and high school convocation programs.
(7) Offer to assist the local insurance groups in study programs and special conferences.
(8) Continue to insist upon high standards of conduct based upon knowledge for those who plan to be insurance representatives.

Having enumerated some of the activities which we teachers

can do to gain academic acceptance for insurance at the college level, may I state, what, in my opinion, the industry should do to assist us in this activity?

(1) Become familiar with the courses now available in the field of insurance and work toward an integration of these various programs. In addition to the courses being offered in the colleges leading to a baccalaureate degree there now exists C.L.U. C. P. C. U. programs, L. O. M. A. programs, L. U. T. C. programs, non-degree campus programs, and private company programs. The industry should study the entire activity of education and training and determine if there is undesirable duplication of effort and expense.

(2) The industry should reduce the rate of turnover at the agency level. There should be stricter licensing laws and more careful selection of agents. Supervision of the agency staff should be improved.

(3) The agency heads should accept the professional concept of the insurance agency calling. This involves the setting and maintaining of high standards of operation. (Students who pursue the accounting curriculum and then are encouraged to take the C. P. A. examinations seldom leave the accounting field!)

(4) Agency heads should put a stop to this nonsense that the best age for successful careers in life insurance selling is between 30 and 40. Maturation is not solely a matter of chronological age.

(5) Insurance companies and agencies may find it helpful to invite some college professors and administrators in their vicinity to attend and participate in meetings and conventions.

Before anyone thinks that the relationship presently existing between the industry and the campus is hopeless, let me say, quickly, that those of us who are fortunate enough to enjoy a close working relationship with the insurance industry in our home community are tremendously encouraged. We are aware of the great reservoir of aid and assistance which stands ready to be tapped by the insurance teachers.

An example of this is the excellent teaching materials made available by the various insurance associations such as the Western Underwriters and the Institute of Life Insurance. The joint committee work being developed by the Life Insurance Agency Management Association and the A. A. U. T. I. is further evidence of the mutual benefits which result when "town and gown" sit down together and discuss their common problems. The people in the insurance industry must tell us the type of college graduate they desire to put on the job. We, in the colleges, must then take this job description and construct a college curriculum and program to achieve the goal. All of this must be done within the framework of sound scholarship and accepted academic procedures.

The Impact of Multiple Line Powers on the Insurance Industry

by

H. Clay Johnson, Royal-Liverpool Insurance Group

I am honored to have been invited to speak to you at this meeting. The subject of the impact of multiple line powers on the insurance industry is a very large one and it will not be possible in the time allotted to do more than touch some phases which appear to me to be most significant.

Having done some university teaching myself and also having been trained as a lawyer, I cannot resist the characteristic urge first to define the phrase "multiple line." Like many other catch phrases which are currently used in our economy, this one too has some contradictory aspects. As early as 1943 we began to hear about "multiple line legislation"—by which was meant proposed laws which would break down ancient stautory barriers and permit fire and casualty lines to be written by both types of carriers. These laws were subsequently enacted in all but two states. The objective of the new legislation was commonly referred to as "multiple line underwriting."

The latter term is susceptible of a variety of meanings, principal among which are three: first, the writing by a single carrier of both fire and casualty lines (as mentioned above); second, the writing by a single carrier of a single policy combining both fire and casualty coverages on a specified peril basis; and third, the writing by a single company of a single policy combining both fire and casualty coverages on what is sometimes called a "scrambled peril" basis. It is necessary to keep these distinctions in mind in employing the term "multiple line underwriting," otherwise nothing but confusion results from any discussion.

I should like to talk about each of these three concepts in turn and point up some of their practical implications. At the outset, however, a word of apology might be entered for what some persons might call a reactionary spirit in our ranks. The insurance business is not too different from any other business or, in fact, from any other branch of our society in its natural tendency to cling tenaciously to fixed standards of living. I once heard this rather common characteristic referred to as the "high viscosity of human folkways." If you find that students in your classroom almost invariably choose the same seats day after day even though not specifically assigned to them, then you are merely observing another example of the same human trait. The only answer I could ever discover to this is that the normal human being finds the business of living so complex that they seize upon any fixed standard available in order to keep their bearings and know how they stand in

relation to others. Along the same line, most of us will admit that we do not care so much about what the rules of the game are so long as we are told the rules in advance — what we dislike most is to have the rules changed midway in the encounter with a resultant element of surprise. Similarly, I believe it was Justice Brandeis who once said that it is sometimes more important that things be decided than that they be decided correctly. And so it has gone with the insurance business in America for well over one hundred years: fixed standards — established rules — things decided.

I should like to make one other general and parenthetical observation: if you have ever observed a slow pick-up freight train proceeding along the line, stopping at every junction large and small and picking up freight cars waiting on the siding, it must have occurred to you as it has to me what a cumulative process was involved and how difficult and disrupting it would be if the engineer were told to return and redeposit each car where it was originally found. I believe much the same phenomenon occurs in our economy. Standards once established have a way of becoming encrusted not only with psychological inertia but also with economic interdependence. Thus, using the illustration with which I began, we find much "economic freight" all about us — with the greatest reluctance on the part of all concerned to return it to its point of origin and we find a vast interdependence of subjects confronting us when on the threshold of change. To paraphrase Mr. Marquand's title, we arrive at a "point of no return" in both our economy and our society and we find ourselves forced to build upon what is already here rather than begin afresh.

Regarding the first mentioned concept of "multiple line underwriting" — the abolition of the statutory division between fire and casualty companies as they are commonly known — this challenged the so-called "American System" which was peculiarly indigenous to the U. S. A. (as most of you probably know, in Great Britain and other foreign countries quite the opposite situation has existed and the strongest companies are believed to be those which transact all types the statutory result of a purely historical development arising out of the sequence of demands for insurance in our country and the creation of separate companies to meet the demands because of the early reluctance of the established companies to enter new fields. The statutory situation has now been altered by the enactment of multiple line legislation. At this point, however, we become confronted with the obstacle of "economic freight" about which I have spoken. It is one thing to enact laws permitting the doing of something, and it is quite another to see the permissable thing accomplished.

What was intended to be accomplished under the multiple-line laws? The advocates of multiple line legislation believed that multiple line powers would offer greater convenience to insurance agents and to the public since it would permit insurance to be sold in fewer policy forms which would be more inclusive and more attractive. They believed also that this would bring about a reduction in expense which could be passed on to the policyholder; that gaps in coverage could be better eliminated and also resulting litigation; that

chances of adverse selection against the company would be reduced, leading to lower rate levels and improved solvency through broader diversification of risks; finally, that a simplification of corporate structure could be made possible through the elimination of unnecessary subsidiaries in fleet operations. Thus, these advocates had in mind the production of combinations of coverage not previously permissible.

This brings me to the second mentioned concept of "multiple line underwriting" — the writing by a single carrier of a single policy combining both fire and casualty coverages on a specified peril basis. There are several recent indicia of this trend. Although these so-called "package policies" are now closely identified with the development of multiple line underwriting, actually they do not represent a completely new idea. We saw the same thing in the evolution many years ago of bankers blanket bonds and even later the rapid rise of "extended coverage" insurance. The recent issuance of what is called (rather redundantly) the "Additional Extended Coverage Endorsement" represents merely recrudescence of the same original idea of a "package" sale of several coverages in one policy form. The only difference is that the new endorsement embraces certain coverages which heretofore have been regarded as "casualty" insurance because of having previously been written by casualty companies exclusively under the compulsion of state insurance laws. The recent issuance of the "burglary endorsement" for attachment to a dwelling fire policy is another illustration of the same trend since it also involves the blending of fire and casualty coverages in one document. These developments have been complicated to a considerable extent by the separate compartments in which our rating organizations were created for fire and casualty insurance, thus necessitating the establishment of a liaison between the two for the purpose of avoiding incompatibility in coverages issued by companies which are members of both. An important factor, which I shall emphasize later, is that these developments have come about in an orderly way through established media, with the result that the insurance-buying public is offered the same new package by substantially all companies in these lines of business.

Finally, we reach the third concept of multiple line underwriting — the writing by a single company of a single policy combining both fire and casualty coverages (and, perhaps, inland marine coverages as well) on what is sometimes called a "scrambled peril" basis. An illustration of this may be found in certain so-called "all risk" policies which have made their recent sporadic appearance due to the individual efforts of a few companies. Ordinarily, the term "all risk" is intended to denote a policy which grants protection against all perils except those specifically excluded. The normal evolution would appear to be from a specified peril to an "all risk" form, as evidenced on the fire side by the development of the "comprehensive" automobile coverage and on the casualty side by the "comprehensive" liability coverages. But both of these developments took place within limited or definite fields and entirely on one side

of the house. There are many deterrents to the development of "all risk" type of coverage in the broad field of fire and casualty insurance. First (as I shall mention again later), most rate regulatory laws are designed to test fire, inland marine and casualty rates separate and apart from each other and there is no existing statutory or administrative mechanism for the filing or approval of rates with respect to an "all risk" form of cover (other than those covers traditional in the inland marine field). Further, the writing of "all risk" coverage introduces many elements of exposure with which underwriters have not heretofore contended and for which there are no reliable statistics. Not the least of the impediments to the sale of general "all risk" policies is that the comparatively large premium required may be almost prohibitive to a small buyer.

While it is true that there have been some significant developments in the field of multiple line underwriting which represent attempts at carrying out the underlying purpose of the legislation, on the whole not a great deal of progress has made in this direction. I think you may be interested in a brief mention of some of the reasons for this apparent reluctance on the part of the business to seize opportunity by the forelock.

First, there is, of course, the lack of homogeneity between fire and casualty practices as built up over the years in the various companies writing the business. This stems from certain essential differences between fire and casualty insurance generally. First, there is the comparative volatility of casualty insurance in that changes in loss experience occur quickly as do resulting changes in rate levels, thus making necessary more responsive and more flexible rating procedures. Also, the catastrophe element looms larger in fire insurance and the loss frequency larger in casualty insurance, with the sharing of risks quite common in the former and quite uncommon in the latter. These and many other differences have given rise to corresponding differences in operating techniques — methods of reporting business, keeping accounts, collecting premiums, payment of commissions and centralization of underwriting. Before any company organization can begin to coordinate its coverages it is necessary, therefore, that it first coordinate itself and this is a change which cannot be accomplished overnight.

Another obstacle in the way of full multiple line underwriting is the so-called "New York Standard Fire Policy" which, with only slight variations, has been adopted in forty-six states, twenty-nine of which have done so by legislation. Thus, under present administrative or statutory requirements in most states, effect can be given to multiple line coverage only by the use of endorsements added to the standard fire policy. This makes the standard policy appear as an awkward impediment. However, the reluctance on the part of the industry to abandon the standard policy is quite understandable in the light of the "economic freight" concept which I have mentioned. The standard policy has been a successful legal instrument for the writing

of fire insurance in this country since 1873. It restored order and certainty to the business when it was in a chaotic state. The standard policy is now surrounded by an aura of case law upon which great reliance is placed by the courts. The standard policy assures concurrency of coverage with respect to risks distributed among several carriers. In view of all these factors, one is foreclosed from adopting a purely theoretical point of view but is forced to adopt a very practical one when considering the possible abolition of the standard policy to make way for full multi-peril writing.

Most thinking persons agree that there now has arisen a need for a change in concept so as to permit the writing of multi-peril coverages within a single document while still preserving the advantages of the standard policy. However, these objectives cannot be achieved by treating a multi-peril policy as something new and different and therefore immune from the standard policy requirements. One of the reasons why this is so is the existence of rate regulatory laws which were enacted in the various states in pursuance of Public Law 15. It is important that companies wishing to adopt common policy forms and to fix corresponding rates do so through the medium of a duly licensed rating organization with the product of their endeavors being tested under the applicable rating law. If a multi-peril policy is given a hybrid classification and set apart from fire insurance, casualty insurance, or inland marine insurance, as such, then it finds no shelter under any existing rate regulatory statute against the impact of Federal anti-trust laws, and concerted rate-making activities in that field acquire dubious legality. Of course, the obvious solution to this problem is to repeal all of the rate regulatory laws and adopt new ones which abolish the old distinctions and permit rates for all coverages, whether written in combination or otherwise, to be considered under a common administrative framework. No doubt this will be done in good time, but any one familiar with the laborious processes of enacting the so-called "all-industry" form of rate regulatory legislation in the first instance and the careful distinctions that were drawn between the criteria for testing fire, casualty and inland marine rates, respectively, will not expect this to be accomplished in a hurry.

Underlying all of what I have said is the very important consideration of standardization. This is something which is probably taken too much for granted not only in the insurance field but in other phases of our economy as well. While visiting in England last May I was given the temporary loan of a small radio to keep in my hotel room and enable me to hear the BBC news broadcasts. Somewhat to my surprise I found that the electric plug did not fit the socket in my hotel room, whereupon I summoned the hotel's engineer who replaced the electric plug with another one which would fit the socket. In the course of this he explained to me that there were (as I remember it) about twelve different types and sizes of electric plugs in current use in England. I mention this only to il-

lustrate the point about taking standardization for granted in the U.S.A. What terrific confusion would result if the manufacturers of the articles which we use in our everyday life did not keep this feature well in mind! I dare say, no consumers — and not even the Department of Justice itself — would seriously contend that concerted effort among manufacturers of a product to standardize its functional aspects is an abuse which should be corrected by legal means or otherwise.

As I see it, an insurance policy can be viewed in the same light as other more tangible products which are sold to the consuming public and which are designed to serve a functional purpose. An insurance policy is intended to cover the particular perils against which the policyholder requires protection and in so doing it fulfills a functional necessity. The use of the standard fire policy — and the adoption and use of the standard extended coverage endorsement, the standard automobile policies, and many other standard forms of coverage which have been promulgated by stock company bureaus — has over the many years inculcated in the minds of the policy-buying public an instinctive reliance upon the appropriateness of the terms of coverage offered for sale. A bank making a mortgage loan finds it sufficient merely to stipulate that "fire and extended coverage insurance" shall be obtained, without the necessity of elaborating upon this concept. The degree of standardization which has been achieved in the insurance business is, I believe, one of its chief attributes and also one of its great accomplishments in the public interest which should be carefully preserved for the future.

In the new trend toward multi-peril policies there is a danger that the "common garden variety" of insurance which the public has found so acceptable for its needs will disappear and in its place will be substituted a varied assortment of new forms of coverage which will confuse and confound both the policyholders and those who advance money in reliance upon adequate insurance protection. By this I do not mean that the business should not strive to improve its forms of coverage or that it should not keep pace with the changing needs of the policyholders even to the point of developing broad multi-peril forms of coverage, combining both fire and casualty insurance. All that I do mean is that we should not mistake mere change for progress, nor should we be deceived into abandoning that characteristic stability which has been one of the pillars supporting our insurance structure in this country. The move toward the adoption of multi-peril policy forms should be an orderly one through established rating organizations so that the final product will become standardized and will be accepted by the public as such — just as the public learns to accept the newest model electrical appliance or any other functional apparatus.

Some people believe that concerted activity in the development of standardized forms of coverage results in an elimination of competition and creates an unwholesome business atmosphere. What I have attempted to point out here is that standardization in the insurance

business differs only in slight degree from the product standardization which exists in certain manufacturing lines. Borrowing from my personal experience during World War II when I was associated with the government's rubber program, I might cite the example of the rubber manufacturing companies which even during the postwar period have continued to purchase their raw rubber requirements from the government which still acts at the central distributor, selling the raw rubber at a uniform price to all customers. The result of this has been to remove from the rubber manufacturing field what was formerly one of its most competitive aspects — namely, competition in the acquisition of raw rubber which for many years was subject to great price fluctuation. The point I make is that the removal of this single element of competition has not made the rubber manufacturing business, when viewed as a whole, any less competitive since the remaining elements of competition have been intensified all the more — I refer chiefly to competition in the expense of manufacture and in the reputation of the manufactured product.

The insurance business can be likened to this. The product which an insurance company sells is an "indemnity" which is "manufactured" by the insurance company out of certain "raw materials" chief among which is the collective loss experience for the class of business affected making this raw material cost virtually the same for all — just as in the case of the rubber manufacturers whom I mentioned earlier. But there remains intense competition in the "expense of manufacture" which in the insurance sense would be the expense incurred by a company in issuing and servicing the indemnity. Finally, there remains the intensely competitive element which inheres in the "reputation" of the product sold — which in the insurance sense would be the demonstrated ability of the issuing company to meet its obligations and to give prompt and fair service to its agents and policyholders. A tangible product of manufacture has certain inherent qualities which make it saleable and which can be well discerned by the discriminating buyer. So, too, an insurance policy, although intangible, carries with it an inherent worth which varies in direct proportion to the reputation of the issuing company for integrity and service. The policy is merely the cellophane cover on the product which we sell — the real article of merchandise is the ability and capacity of the issuing company to meet its obligations and service claims when they are presented.

I think one of the greatest tributes which the policy-buying public unconsciously pays to the insurance business in America is its willingness to accept the product sold "sight unseen," as it were. Of course the policyholder has ample opportunity to examine the policy in all of its particulars and to make even further inquiry through his agent as to the scope of its contents — but the tribute arises out of the fact that the average policyholder does not feel it necessary to do so and is willing to rely upon that degree of standardization which he has come to accept without debt or question. This, I believe to be the strongest bulwark against government intrusion into our

business. As long as we can continue to earn this respect of the insurance-buying public — as long as they accept our product without the necessity of "feeling the goods" or taking a "sample taste" — we need not worry about nationalization of our business or any other threat of government interference.

Instead of analyzing in any detail the nature and effect of specific types of multi-peril policies and other developments which have stemmed from the advent of multiple line powers, I have attempted here merely to give you a "behind-the-scenes" glimpse of the impact of such powers on our business. The members of this Association have the responsibility of explaining the insurance business to students. You make a major contribution to the security of our business when you explain it in this objective light. Like democracy itself — a term which has lately become so over-used and so little understood — the greatest endangerment of insurance is through misunderstanding of its fundamentals. You who are removed from the competitive forces which pull and tug at the periphery of our business can take a more detached view of its essential characteristics and properly evaluate both the persuasions of the past and the influences of the future. I hope you have found my remarks not too much at variance with your own more deliberate analyses and I shall be interested in hearing your own comments on this very engrossing subject.

The Impact of New Disability Coverages on the Life Insurance Companies

by

John H. Miller, Monarch Life Insurance Company

The succession of announcements of insurance companies entering the individual health and accident field has, perhaps, created the impression that this has been a neglected line. While these companies are bringing new ideas, new selling effort and new publicity, which should prove to be of value to the business and to the public, it should be recognized that they are not entering a virgin field nor one which has lain fallow. Over 400 companies and associations are now writing individual health and accident insurance, most of them having been engaged in this business for a considerable number of years. Health and accident premiums in this country, exclusive of Blue Cross and Blue Shield subscription income, exceeded a billion and a quarter dollars in 1950, or about 20 percent of the total amount of premiums paid for life insurance.

Adding to these health and accident insurance premiums the subscription income of Blue Cross, Blue Shield and independent medical plans, we have a total, for 1950, of nearly 2 billion dollars. It is expected that the 1951 total may be well in excess of this amount. Serving the same purposes as health and accident insurance, in the area of industrial accidents and occupational diseases, there is also the very impressive volume of workmen's compensation, including self-insured benefits, and there is, in many plants, industrial medical service beyond the requirements of compensation legislation. While a great opportunity for further development of health and accident insurance lies ahead, it is a mistake not to recognize the achievements that have already taken place and other factors which tend to limit the potential market.

The growth in health and accident business has not been uniform. In the past decade premiums for individual policies have approximately trebled while group premiums have increased about ninefold. As a result, group insurance, though developed much more recently, has this year passed the individual business in aggregate volume. The total premiums for loss of time benefits in 1950 were a little less than 3 times the estimated amount in 1940, while premiums for hospital, surgical and medical expense benefits in 1950 were more than 10 times the corresponding estimate for 1940.

Reasons for the recent rapid growth in individual health and accident insurance premiums include the increasing population and the growing number of employed individuals, rising wages and salaries, the reduction in the purchasing power of the dollar, the increasing acceptance of insurance as the most suitable method of meeting expense and loss of income resulting from sickness and accident, and

the improved policies and services made available by the insurance companies. Our changing social and economic relationships have made people more dependent on maintenance of personal incomes. The high cost of some of the new medicines and medical techniques, which are dealing so effectively with many serious diseases and which have so greatly reduced our mortality rates, is another stimulus to the growth of this insurance. Group insurance has grown as a result of these same forces together with the important effect of collective bargaining between labor and employers with respect to insurance benefits. In 3 states the sale of group business has also been accelerated by laws requiring employers to provide disability benefits, which may be underwritten by private insurers.

As a result of these forces, insurance companies, Blue Cross, Blue Shield and other plans have extended hospital coverage to more than half the entire population, with many of this number enjoying more comprehensive protection in varying degrees. In judging the extent of this coverage, it should be borne in mind that not all people are in need of voluntary health and accident insurance since protection is provided through government action to such groups as members of the armed forces and inmates of public institutions. Many other groups enjoy partial coverage through governmental plans. In fact, it is stated in the Hoover report that the Federal Government is trying to give various degrees of medical care to 24,000,000 persons, including 18,500,000 war veterans. There are also the indigent for whom medical care is generally provided at public expense. Thus, voluntary health insurance covers considerably more than half of the people who need it and for whom it is appropriate.

The history of accident insurance goes back for more than a century, and that of health insurance, apart from some early unsuccessful ventures, dates to 1890. Comprehensive medical care plans were established in lumber camps and mines in the latter part of the 19th century. However, the significant development of health and accident insurance began in the first decade of this century. By that time policies were being sold which provided weekly disability indemnity benefits for loss of time up to one year or more, together with supplementary benefits for hospital confinement, nurse care, and surgical operations.

Various liberalizations took place over the following 20 years, the most important being the payment, in the case of many policies offered, of disability benefits for the entire duration of disability without any limitations on the length of time during which benefits would be paid for any one disability. The effect of these liberalizations, together with an underwriting policy that did not give sufficient consideration to the hazards of overinsurance, led to mounting losses which were aggravated by the depression that commenced in 1929. As a result, revisions were generally made in policies and rates as well as in underwriting practices. Some companies, while continuing to sell accident insurance aggressively, adopted a very conservative policy with respect to health insurance. Other companies, however, continued to offer and actively to sell policies combining health and accident benefits and including, in many cases, supplementary hospital, surgical and nursing benefits.

The period from the depression of the thirties to date has witnessed another series of improvements and extensions of coverage in the health and accident field, the two most significant developments having been — (1) the gradual but continuous liberalization in policy provisions and in practices followed in the payment of claims, and (2) the development of broader benefits for hospital, surgical and medical expense, the extension of these benefits to family dependents and their widespread sale throughout the nation.

As an example of liberalization of policy forms, one company which in 1930 excluded liability for losses caused by

self-inflicted injuries,
subacquatic occupations,
occupational handling of acids, explosives, or high-tension electric currents,
injuries received while intoxicated,
the use of intoxicants or narcotics,
nonscheduled aviation,
sickness outside the United States or Canada,
military service,
war or any act of war

now includes in its principal policies only one of the foregoing restrictions, namely, war or any act of war. In the payment of claims strict and technical interpretations of policy contracts have yielded to a more liberal policy.

While most insurance companies writing health and accident insurance have continued to regard the loss of earnings as the principal hazard of accident and sickness, since family security rests primarily on the maintenance of personal income, they have at the same time been increasing the scope of benefits payable for hospital, surgical and medical expense in recognition of the need and public acceptance of these benefits. As mentioned, the growth in insurance against the costs of medical care reflects changes in our living habits resulting in increasing use of hospital facilities, and changes in medical practice.

Although hospital, surgical and medical expense benefits are still widely sold as supplementary features in policies providing weekly or monthly income during periods of disability, they have also been made available in hospital and surgical policies which do not include any loss of time benefits. A comprehensive policy, including the principal benefits which are now generally available, might be illustrated by the following specifications. The limits and amounts of indemnity mentioned are somewhat greater than average amounts currently sold, but less than the maximum amounts offered.

$50 weekly indenmnity for total disability from accident, payable from the first day of disability for up to 2 years. In many policies, however, the weekly indemnity for total disability caused by accident is payable for the duration of disability without any indemnity limit.

$20 weekly indemnity for partial disability from accident, payable for up to 26 weeks.

$50 weekly indemnity for total disability from sickness, whether or

not house confining, payable from the eighth day of disability for up to 2 years.

$10 per day for hospital confinement for up to 90 days.

Payment of miscellaneous hospital expenses up to $100.

Payment of surgical expense up to amounts specified in a schedule of fees ranging from $5 to $200 according to the severity of the operation.

Payment of medical expenses up to $5 per house call and $3 per office or hospital call, excluding the first 3 calls in case of sickness, and subject to a limit of $250 in any one year.

$10,000 principal sum payable for accidental death or double dismemberments, with lesser amounts payable for single dismemberments.

In many policies currently offered no benefit for accidental death or dismemberment is included. The tendency to omit the death benefit may be due to the fact that much of the business is sold by life insurance agents who can offer, through life insurance, benefits payable on death from any cause, supplemented by double indemnity for accidental death if desired. In addition to the benefits listed in the illustrative policy just described, many policies contain other features such as a blanket accident expense benefit, nurse expense benefits, double benefits for travel or other specified types of accidents. A number of companies will extend the hospital, surgical and medical benefits to the family dependents by rider. Family policies are offered by other companies to provide these benefits to the insured, his wife and children not over the age of 18.

During recent years important changes have been made in the arrangement and format of policy forms, as well as in their substance. A number of companies are replacing the traditional "package form" with optional riders providing additional benefits or extended coverage with a schedule type of policy or, as it is sometimes called, a multiple option policy. The schedule policy, which is somewhat like forms used in some of the fire and casualty lines, includes a schedule of benefits by title and brief description on which may be indicated the benefits which have been made effective, and the amount of indemnity or limit of payment applicable to each such benefit. This form of policy permits a very wide choice of benefits so that a program can be developed through a single form, fitting the needs and desires of the applicant.

Accident insurance is generally available either by itself or in connection with health insurance. Health insurance may be provided through a separate policy issued in conjunction with accident insurance, but more often the accident and health protection are combined in a single contract. Health and accident policies of the type described, requiring the payment of premiums annually, semiannually, or quarterly, are generally referred to as "commercial" policies unless they are guaranteed renewable up to a stated age, such as 65, in which case they are termed "noncancellable" policies. Similar benefits are also provided through "industrial" health and accident policies on which the premiums are payable weekly or monthly and customarily collected by the agent at the home of the insured. Some industrial policies combine health and accident insurance with life insurance. Comparatively

little health and accident insurance has been sold in the northeastern states but this form of insurance has been quite widely distributed in most other parts of the country.

The increasing emphasis on benefits toward the expense of medical care has brought insurers into new relationships with insureds, hospitals and physicians. Health insurance has always involved special problems of its own because of the difficulty of precisely defining the state of disability, and the development of benefits covering the cost of medical care has introduced additional problems. Many of these benefits involve a 3-party relationship not encountered in the earlier forms of health insurance. The following illustrations are offered to explain the varying problems involved in different types of insurance protection.

If, for example, a policy provides for the payment of $100 in case the insured sustains a broken leg, the insurer has only to consider the statistical probability of such an injury and to multiply this by $100 to get the necessary premium charge exclusive of administrative expenses. The provision of a small benefit in this case is not likely to induce the policyholder to expose himself to an undue accident hazard. The question of whether the event insured against has happened is a fairly simple question of fact. There is no doubt as to the amount payable since this is stipulated in the policy. In short, no real problem is presented. If the policy further provides for the payment of $100 in the event an appendectomy is performed, a new problem is introduced; namely, the medical question of diagnosis and proper treatment. Here, however, experience in issuing surgical insurance in the traditional manner has indicated that, while two surgeons may not agree as to the necessity of a particular operation, the differences of opinion do not constitute a sufficiently wide area to make the frequency of various surgical procedures difficult to predict. If we go further and agree to pay a benefit such as $5 per home visit or $3 per office or hospital visit for medical care of the insured, an additional problem is introduced; namely, how often the physician or physicians should call upon the patient. If the amount payable for each visit fully covers the physician's charges, the insured may be inclined to ask for more attention than the illness or injury actually requires.

Despite the problems involved, experience with the schedule type of benefits which I have described has generally yielded satisfactory underwriting results. Where benefits are paid for determinable conditions, largely beyond the control of the insured, and are limited in amount so as not to encourage excessive utilization by the insured, such coverage has proved to be practical.

These schedule type benefits have come to be looked upon as basic insurance against the cost of medical care. In the great majority of cases they pay at least a very substantial part of the cost of the necessary treatment. However, when sickness results in long drawn out disability, with perhaps extended hospitalization, very large bills for some of the expensive antibiotics, extensive surgery or large medical bills, the portion of the cost not covered by insurance may overtax the resources of the insured.

As an attempt to solve this problem there has been developed in recent years the so-called "catastrophic," "medical disaster," or "major medical expense" policy. A typical plan provides for the payment of 75 or 80 percent of all the expenses incurred, exclusive of a deductible amount, such as $100 or $300, and subject to a maximum limit on the insurer's liability of from $1,000 to $5,000. The purpose of the deductible amount is to eliminate payment of expenses for which the insured may be able to budget or which may be covered by his basic insurance of the conventional type. The deductible also serves to reduce the cost of insurance by reducing the amount of all claims and by eliminating entirely the many small claims, the payment of which may involve administrative expenses out of proportion to the amount of the benefit. In some cases the catastrophic or blanket protection is integrated with basic insurance of the traditional type, so that the former picks up where the latter leaves off. In other cases a provision is included under which the blanket benefit is subject to a deduction of the sum of the basic benefits payable and a deductible amount, such as $100. The purpose in paying 75 or 80 percent of the excess cost rather than the entire excess is to give the insured a personal interest in avoiding unnecessary expense, that is, to make him a co-insurer to the extent of 20 or 25 cents out of each dollar of expense beyond the deductible amount.

Whether this plan will prove to be satisfactory will depend very largely on whether the co-insurance feature will act as an adequate control. Control of cost is an essential feature in any economic relationship. In the traditional fee-for-service plan of charging for medical care with each patient paying his own bill, controls are automatic. The vast majority of the population has never had a surplus of spending power beyond its reasonable needs and modest luxuries and the number of wealthy neurotics has never been sufficient to overtax our facilities for medical care. Under the schedule type of policy with stipulated maximum payments for various types of surgical operations and medical treatment, the provisions and limitations of the insurance contract control the cost in the manner already explained. Under the catastrophic type of insurance which I have just described, the control provided through a schedule of fees is not present and the economic control through payment by the patient on a fee-for-service basis is substantially watered down if the insurance covers as much as 75 or 80 percent of expenses in excess of the deductible amount. It seems evident, therefore, that the most effective control over costs under a policy of this type will be that exercised by the physicians, nurses and institutions providing the services.

The problems created by the development of these new types of medical expense insurance require the mutual understanding and cooperation of the medical profession, of hospital administrators and of insurance executives and personnel. To promote such understanding and cooperation, the Health Insurance Council, which represents the principal organizations of insurance companies interested in the sale of health and accident insurance, was organized several years ago. The Health Insurance Council provides a medium through which insurance

executives can meet with representatives of the medical profession and hospital administrators and discuss their mutual problems and interests. Considerable progress has already been made in this way and there is every reason to believe that more will be accomplished in the future.

It is interesting to note how this business of health and accident insurance, originally thought of as a casualty line, has come to be more and more closely allied with life insurance. The part played by life insurance companies and their agents in this business has been an increasing one. Twenty years ago slightly over half of the total health and accident premiums written in this country represented business issued by life insurance companies. In 1950, approximately 70 percent of all health and accident premiums in the United States were written by life insurance companies. In addition, some of the business issued by casualty companies or companies specializing in health and accident insurance is sold by life insurance agents acting as brokers for their clients. With the advent of a number of large and important life insurance companies into the field of individual health and accident insurance, the percentage of business created by life insurance companies may be expected to continue to increase.

While health and accident insurance is akin to life insurance in that both are primarily devoted to the protection of personal income and, therefore, of family security, the two lines differ in many of their characteristics and with respect to many of the problems of sale and administration.

In life insurance an agent can develop quite a large business from a comparatively small clientele through repeat sales on existing policyholders. Also, he can develop a substantial volume of business by selling large policies to a comparatively small number of buyers. In heath and accident insurance the amount that can be sold to each insured without incurring the hazard of overinsurance is strictly limited and the premium for this amount is often small in comparison with the total premium which a company would be willing to accept from the same man for life insurance. Furthermore, protection through group life insurance is more often an aid than a deterrent to the sale of ordinary life insurance. On the other hand, group health and accident insurance may leave no insurable margin for the sale of an individual health and accident policy to the insured employee. In any event, it will tend to reduce the amount of insurance which may be offered.

The problem of conservation of business is more difficult in the case of health and accident insurance than life insurance. Comparing health and accident insurance with life insurance of comparable quality written by the same agency force, it will generally be found that the lapse rates are substantially higher for health and accident than for life business. This may be due to the absence of a savings element in the health and accident contract or to a feeling on the part of many policyholders that an existing policy can be replaced without substantial loss. There are many valid reasons for avoiding the lapse of health and accident contracts. For example, many policies contain waiting periods under which some or all of the benefits are not payable until after a

specified number of days following the date of issue, or include an incontestability provision or a "time limit on certain defenses" after which misrepresentations in the application or the existence of an impairment or disease at time of application may not be used to avoid a claim. Despite these conditions and the efforts of companies and agents to prevent lapses, the fact remains that the business is more difficult to conserve than life insurance.

Another important difference between the two lines is in the character and frequency of claims for benefits. It is often difficult to establish whether or not a person is disabled, whereas the fact of death can be readily determined. Among a thousand life insurance policyholders, a company may expect perhaps 5 claims in a year. Among a thousand persons insured for health and accident benefits, the number of claims might be from a hundred to 300 or even more, depending upon the elimination period and other terms of the contract. Thus, the insurer is brought into much more frequent contact with policyholders at the point of performance. The large number of claims arising offers a great opportunity for the building of good will and favorable relations with policyholders and it offers an equal opportunity of creating ill will. The administration of claims is thus an exceedingly important element in the business of health and accident insurance and one which will largely determine a company's reputation with the public.

In underwriting, also, there is a great difference between the two lines of insurance. In the underwriting of health and accident insurance, all the considerations involved in life underwriting are present; namely, physical condition and history, occupation, habitat and environment, habits, family history, reputation and financial standing. However, since disability is not a sharply definable condition, the character of the applicant takes on increased significance, often outweighing in importance even his physical condition and history. Economic factors such as the applicant's regularity of employment and stability of income and the relationship between his earnings and the indemnities in force or applied for are also of great importance. Overinsurance has proved to be one of the principal hazards in the underwriting of health and accident insurance. Some limited protection can be obtained through policy contract provisions. Except in some states where the laws are construed to prohibit its use, an average earnings prorate clause may be included in the policy under which the indemnity for loss of time may be scaled down if the indemnities in all companies exceed the insured's average earnings before disability. Also, a company may use Standard Provision 17, which provides for prorating indemnities if the insured carried other insurance without notifying it accordingly. Regardless of the use of prorating clauses, the dangers of overinsurance can best be avoided through the adoption by each insurer of conservative limits of issue and participation.

The underwriting of health and accident insurance differs from life underwriting not only in the greater significance of moral hazard and financial hazard, or overinsurance, but also in the different importance of certain medical impairments. As an example, a history of recurrent minor respiratory ailments, which might be disregarded in life under-

writing, would be expected to result in substantially increased costs under health insurance, particularly when issued with short elimination periods. Skin diseases of a superficial nature fall in the same category.

Careful underwriting on the part of the agent, as well as by the home office underwriting staff, makes possible the use of policies substantially free of restrictions and permits the adoption of a liberal policy of claim administration. Obviously a policy of sound underwriting and liberal claim administration builds good will and favorable relations with policyholders.

Most health and accident insurance is written without medical examination of the insured or of covered dependents although, for certain types of policies or large amounts, an examination may be required. Substandard underwriting has not been developed in health and accident insurance to the extent that it has in life insurance but is receiving increasing attention. For many years policies have been written covering impaired cases by the use of "elimination riders" or "waivers" which provide that no payment shall be made for losses caused by a specified disease or impairment which exists at the time of application or of which there is a history. More recently, some companies are providing full coverage to substandard applicants in certain categories subject to the payment of an extra premium to cover the anticipated increase in the cost of the protection.

It has been said that the underwriting and administration of health and accident business is more of an art than a science. This statement reflects the subjectivity involved in disability and in medical treatment. In health and accident insurance we are dealing with all the vagaries of human nature and the motivations of human behavior. Factors are therefore involved which cannot be evaluated by objective determination and which cannot be reduced to mathematical formula. The successful conduct of the business calls for imagination on the one hand and prudence on the other. It also calls for continuous and intensive analysis of experience, for only by the analytical study of benefit payments in relation to exposures can danger signs be detected in time to correct improper practices or to revise unsatisfactory policy provisions or inadequate rates.

Because there seems to be some overoptimism as to the potential market for health and accident insurance, it may be well to point out in what ways this market differs from that of life insurance. In life insurance, the volume of new business is limited primarily by the public's ability to pay premiums and willingness to forego present enjoyment of the money required for that purpose. Overinsurance is rarely a problem, since the will to live largely eliminates purchases for speculation. In health and accident the point of overinsurance often involves a premium well within the insured's ability to pay, and, because of the possibility of a return far in excess of this premium outlay, he may be quite willing to pay the premium for an amount of insurance greater than prudent

underwriting would permit. For this reason the problem of overinsurance creates a definite limitation on the potential market for health and accident insurance as compared with that for life insurance. It is also necessary to bear in mind the fact that, regardless of the amount or quality of insurance available to them, many individuals will continue to be uninsured or underinsured because they give other items in their family budget a higher priority.

Looking now at what has actually been accomplished in providing health and accident protection, the Health Insurance Council's survey indicates that at the end of 1950 over 37,000,000 individuals in the United States had some protection against loss of income due to disability. This figure includes some who are protected solely through paid sick leave programs but comprises principally those covered by insurance. As the individuals insured against loss of income are mainly drawn from the employed population, we may compare this figure of 37,000,000 individuals having loss of income protection through voluntary methods with an estimated 60,000,000 persons in civilian employment at the same time. The Council survey also indicated that about 77,000,000 men, women and children had some protection against hospital expense at the end of 1950. This number closely approaches the estimated number of life insurance policyholders at the same date, approximately 83,000,000. In the case of group insurance, it may be noted that the number of employees with group weekly indemnity exceeded 15,000,000 which is not very far short of the 19,000,000 protected by group life insurance. Thus, in terms of numbers of people protected, health and accident insurance including protection provided by Blue Cross, Blue Shield and independent plans, stands not far behind the record of life insurance. Many of those now insured have only hospital insurance or are not protected with respect to their family dependents and are therefore prospects for additional protection within proper underwriting limits. Considering all factors, it may be concluded that while a substantial market exists, competition for it will become increasingly keen as the growth in volume of premiums continues to outstrip the growth in national income and as more companies commence writing health and accident insurance.

The agent whose company has just entered this field will find that the sale of the new line, if he had not previously been brokering health and accident for another company, requires considerable reorientation and a great deal of study. The life insurance agents who have already gained a familiarity with health and accident through brokerage connections may be little interested in their new line unless they find that it compares favorably with that which they have been selling. For these reasons many of the life agents now in the business may not take up the sale of newly offered health and accident with vigor. Others may spend a disproportionate time on the new line, at the expense of their life insurance production. Careful planning by management and wise supervision will be required to maintain a proper balance between life and health and accident sales with respect to individual agents and the company as a whole.

Companies recently entering this field have expressed a variety of reasons for doing so. Those which expect to gain some immediate benefit may well be disappointed. Those which expect to make an investment of time, effort and money without expectation of an early return and which are endeavoring to introduce new types of benefits or to tap new markets can make a positive contribution to the business and to the public. With all the new forces at work the next decade in the health and accident business should be as productive of growth and development as the one that lies behind us.

Running A Life Insurance Company is Fun

By
Julian D. Anthony, President
The Columbian National Life Insurance Company

As I thought over what I might talk to you about tonight and not give you a heavy talk — for at the end of several days of convention I know from experience that the mind can't take much more — I decided I would talk to you about some of the practical every-day problems of running a life insurance company. For the most part they are the problems that don't appear in a text book and they are the problems with which you men who pursue an academic course without spending time working in home offices, would be unlikely to come in contact. They are also problems which are very practical and down to earth and some of the things that take the time of a top executive. They are problems with which the graduates of your courses in insurance, if they get into home offices, will be thrown in contact and the kind that they must be capable of understanding, analyzing, and solving.

I chose my topic — "Running a Life Insurance Company is Fun" — because I feel exactly this way about the job. I like it, and I think that working with these problems really is a lot of fun. Some of the things I'm going to tell you about are among the most rewarding parts of the work. I made my topic apply specifically to life insurance, because that is all I'm really familiar with. On the other hand, almost any of the things that I shall talk about are also problems involved in running fire, casualty, and other kinds of insurance companies.

Had I been a little more daring I would have sent Dr. Kahler the topic I really had selected. It would have been, "Running a Life Insurance Company is Like a Three-ring Circus." That is exactly the way it is. There is something going on in all these rings at the same time. The acts are changing, the clowns are keeping the balls in the air, and the audience is alternately bored, startled, frightened, amused or wondering. Sometimes the main act is in one ring and sometimes it is in another. At times all three rings have about the same thing going on, and at other times they have entirely different acts. Running a life insurance company involves just such constant performances in a lot of different rings or spheres of activity. They all have to be watched and coached so that the total is a satisfactory and worthwhile whole.

Now I am fully aware that Barnum and Bailey and others have proceeded far beyond the three-ring stage. There are five rings, seven rings, and perhaps larger numbers. Nor do I mean to imply that there are only three things that a chief executive of a life insurance company has to watch, for really there are about as many rings as there are departments — and we have about nineteen departments. However, as you all know, there are three factors taken into account in computing a premium for a life insurance policy. Those three factors are mortality, interest, and loading. The operation of a life insurance

company in these three fields and the success or failure of the operating policies in these fields, determines whether a company is successful and profitable, or whether it is not. In applying my analogy of the circus rings to running a life insurance company, I have used these three divisions as the three rings of my circus and have thus grouped the several topics which I shall discuss. Some of these topics I am only going to suggest as that is all that is necessary.

The first of these headings is mortality, but in this section I am not going to talk about mortality tables, of which you know perhaps as much as I; nor am I going to talk about the way that research and medical science have been lengthening the span of life. Mortality gains grow out of underwriting, and underwriting comes from the sale of insurance, and I'm going to talk a little bit about this very important part of running a life insurance company.

The head of a life insurance company must keep very close to his agents and agency organization. This is about as much fun as any part of the job and at the same time it is one of the most challenging. Selling new business is the life blood of an insurance company and it cannot be neglected even for a short time. Since life insurance is sold and not bought, the kind of an agency organization we have is of the utmost importance. This job of contact with the agent involves trips to the field, visits to agencies, attendance at dinners for contest winners, and various means of communication. It is important to an insurance company that the agents feel that the chief officers are interested in them personally and the work they are doing. In the small and medium sized companies they can know them by name, but in any size company it is the belief that the officers are interested in their personal welfare that is important.

But this activity has a broader implication than merely a friendly contact with the agent as a person. The agent is the principal contact with policyholders and the public. True, the home office sends out premium notices, annual reports, handles changes in policy loans, and so forth, but the public's impression of insurance companies is gained largely out of their impression of agents. It is the agents which by and large control insurance companies' public relations.

How can we obtain better agents? Better agents will give us better public relations and they will build further the respect of the general public. The need of improving the quality of agents is one every company is thinking about and struggling with. Here is an important field in which you teachers of insurance can help us a great deal Not enough college men go into selling life insurance and yet it is one of the most attractive professions to a man who can do the job. With all the familiar advantages of the profession, surveys of college graduates show that very few plan to be life insurance agents. We need educated and broad-guaged men and women to get life insurance to the people who need it. We need them to be capable of dealing with the intricate problems of taxation and estate distribution, corporate relationships and pensions that are involved in the better kind of life insurance selling today. So we need the help and cooperation of not just you men who are here in this room this evening, but that of all the

universities and their teachers to encourage good men with the right qualifications to enter into our industry, and particularly, not to discourage them or to make fun of the business. I am sure you men who are here tonight wouldn't do that, but you know, and I know, that we are still fighting for a wider acceptance of life insurance selling as a profession, and not all thinkers and teachers look upon life insurance selling as something to aspire to. This is one very practical problem which is really a joint activity of yours and mine.

Next I should like to mention briefly the problem of the kind of insurance we sell — term insurance versus cash value insurance. Others have publicly discussed much of the theory, especially Charles Zimmerman and Raymond Johnson — whose paper was distributed at breakfast, bht there is a very practical reason why the companies are trying to push cash value insurance — our agents have got to make a living. A few years ago the agent of our company who sold the largest volume of insurance during the year had sold it all through banks as term insurance to cover mortgages. It was over half a million, yet he was running behind on the $200 a month drawing account. We had the man and his problem. Perhaps this is an exaggerated case, but all of us life insurance men know of agents who are somewhat similarly situated. It isn't that we don't believe in term insurance or family income riders, or life expectancy policies, but life insurance cannot function at its best if only term insurance is sold.

Now I think this is a problem which you teachers of insurance and your friends in universities can help us with. My contact with professors indicates that they are apt to believe and teach that life insurance is for protection only, that this should be obtained through term insurance and that the difference in premiums can be invested. But experience also shows that too many things intervene and a program, once embarked upon, is not completed as it should be. Ordinary life insurance is still the best and cheapest way for the average individual to save money for retirement as well as to protect his family.

I should like to mention one other problem before I leave the field of mortality and the sale of insurance. That is Section 213 of the New York law and its revision. Not every life insurance company is authorized to do business in New York, but because of the size of the companies thus licensed, their nation-wide coverage in the sales field, and the fact that what they do affects other companies in a competitive way, this is of great over-all importance to the business. I have spent a great many days discussing this problem, attending hearings, and attending meetings at which committees report. The law affects such practical problems as whether an agent or general agent who entertains a client must send a receipt to the home office for the taxi fare and luncheon check. It affects such further practical problems as the allowances we can make to develop new agents and what limitations these are on these allowances, whether we may have a pension plan for our agency organization, and so forth. A whole series of lectures could be given on this broad topic and it is of the utmost importance. As you know there is a big drive being or-

ganized at the present time to secure larger commissions for agents. A change in commission rates of any consequence certainly depends upon a revision of Section 213 of the New York law for that law controls this matter.

The second general division of our business in the way I have divided it, is interest on investment. It is my general impression that over the years, the theorists and the people who study life insurance have discussed this matter quite thoroughly, and, as a matter of fact, have given it a place of more importance than the other two fields that I take up in this talk. Perhaps one reason is beiause almost everyone fancies himself an investment man and he has some pet investment theories and ideas. I find this division of the business pure fun because I started out in the investment field, and I have the feel for it and know my way around in it in a way that experience brings. Because I think it is more broadly understood, I'm going to deal with this field fairly lightly.

Last month I celebrated my twentieth anniversary with my company and in that connection, I looked back to 1931 to compare things then and now. One of the interesting things which I found was that in 1931 the investment inrcme of our rompany was 5.49%! It hardly seems possible today even for those of us who can remember those earlier days. While we might understand how 5½% could be earned occasionally, we can't quite imagine it being earned on the whole portfolio of the life insurance company; yet, that is the fact. 1951 is vastly different, and the drop in average interest earnings to only a little more than half that figure has brought very many practical problems which every life insurance chief executive has had to struggle with. At the moment, interest yields are improving and quite markedly. At a recent meeting of our particular Finance Committee the investments authorized averaged approximately 3.4%. This now is more than the average interest requirement on policy reserve instead of less, and obviously the implications are very great. They involve the question of whether to proceed further with re-valuation of reserves and just when we should recognize this change in interest rate as of enough permanence so that we should change our premium rates. Two companies have already announced lower rates. Another situation which has been affected by higher interest has been the attitude toward the rate on policy loans. For quite some months now I haven't heard anything about policy loan interest rates being too high and as a matter of fact our rates are now about the same as, or even lower than, the money rates to individual borrowers in all but the largest Metropolitan cities and to all but the holders of policies with pretty substantial cash value. This turn-around illustrates very graphically the essential nature of policy loans and the very long term undertaking an insurance company makes to lend money at a fixed and definite rate stated in the policy.

In the mortgage field I want to mention that the trend of most companies toward FHA loans and VA loans has taken us away from mortgage lending in the traditional sense and put us in the business

of buying a government guaranty. To a large degree we are not interested in the property as such, and certainly not to the extent that we used to be. My particular company inspects every VA or FHA loan and decides whether it wishes that particular mortgage, but I think this is not the custom generally. VA mortgages are being bought on the present policy of the Veteran's Administration which might change drastically if there should be a change in public thinking about these matters, or hard times, which would cause a large volume of delinquencies.

In planning this speech, I intended to talk about the very practical problem the management of an insurance company has working with its directors on finance committees and other similar policy committees. This takes a great deal of the time of an executive and is extremely important, of course. In the investment field, for instance, one member of the committee will not want long bonds (although about the only bonds being issued today are twenty or thirty year bonds) Another will not like natural gas securities. Another will have a prejudice against different parts of the country, railroads, and so forth. I have often said that if we really followed all the ideas of a finance committee, we would never make any investments but would hold all of our funds in cash. Even Governments can be criticized. So the real problem is to try to find a middle-ground that each member of the committee will be reasonably satisfied with and not too dissatisfied with. It is a very practical, every-day problem, but like these other things, it really is a lot of fun.

I can't leave the subject of investment without mentioning one more thing and that's the Voluntary Credit Restraint Program. The insurance companies are whole-heartedly back of this program to attempt to control inflation or at least cut down its effects. It brings the very practical result that every investment has to be considered and tested by the principles involved in that program, a new principle not based on investment considerations. I have been privileged to be a member of the Eastern Insurance committee to which questionable cases are referred, and through my contacts in this way, I know that a very sincere effort is being made to follow this program 100%. A great many loans are being turned down that would otherwise be made and which would have an inflationary effect. I would like to remind you that there are two purposes to the program. One, to cut down the inflationary effect of certain kinds of credit, and the other, to channel available capital into the paramount needs of our economy today, especially defense. I am sure the program is working and if any of you have any doubts about it, I wish you would talk with people who are close to it. A voluntary program can never be perfect and we have no policing powers — nor do we want them — but it is a very sincere effort participated in by all types of lenders.

The third ring of my three ring circus is "loading" which means the cost of operating. This field is of much greater importance than ever before because inflation is putting up the cost of everything, especially of labor; and yet, all our premium income is obtained from contracts in which the allowance for operating cost is never going to

change no matter how high wages and other costs go. The inflexibility of these loading allowances versus the change in costs is one of the most practical day to day problems we face.

The actuary of our company every three months computes the cost of operations (excluding agency cost of new business) and relates it to business in force. Ten years ago this was $1.30 per thousand and today it is $1.85 — nearly a 50% increase. How much further we can go before we have an actual loss on loading? This puts a challenge to us that has to be accepted.

There are many fields for experiment and new methods to be explored in dealing with this general problem. They all come under the heading of greater efficiency — getting more work out of fewer employees and materials. Greater use of punched cards, for example is a very likely field. In my company we have been studying many possible new procedures of this sort. A good purchasing agent and people with responsibility for planning and study of home office operations are essential. Ingenuity and imagination are required and a willingness to throw away old notions and shibboleths.

One operating procedure directed toward the control of costs which especially interests me is budgeting. Since budgeting is so familiar to all of you, both with respect to your personal affairs, the corporations you read about, and the huge operations of the Federal government, it may come as somewhat of a surprise to you that at the present time many, if not most, life insurance companies do not operate on budgets. I've been connected with many enterprises as a director or similar position — public utilities, charities, municipal, government, and so forth — and all have had budgets which functioned effectively. Only the business from which I make my living did not.

Four years ago in our company we started with a budget convinced that it would be several years before we really had completely satisfactory results and experience. Our purpose was not only to control costs, but also to find the means of doing things we should be doing but were not — and within the same cost structure. We have accomplished both objectives.

Preparation of a budget is not a matter of crystal-gazing or forecasting. It is mathematical and it can be precise, the degree of precision varying in direct proportion with the interest which top management takes in its preparation, and the interim reports and in the final recapitulation and reconciliation of budget and actual expenditures.

You may be interested in some of the details of operation. The department head prepares his budget in January when his expenses for the previous year are known. Each departmental budget is then reviewed, item by item, by a committee of top management. Adjustments may be made, both increasing and decreasing, depending upon what the committee, in consultation with the department head, feels the situation demands. When all departmental budgets have been reviewed, an aggregate of them is prepared and it becomes my duty to determine whether the total is in line with our probable income, the amount in our expected premium available for operating expense.

When all adjustments have been effected and the budget is approved, the job is not ended. Perhaps the most significant operation still takes place, and this is virtually continuous. It consists of the comparison, at the end of each month, by department, of the amount expended for each item and what should have been expended at that time. This process of comparison and investigation has brought to light many things that would have escaped unnoticed. Remedies are more effective when they are made promptly. It is quite obvious with such a procedure that there will be no great surprises when December rolls around. Thus far all of my company's expenditures have been "in the black" compared to the budget. In 1948 the margin was 2.148%, in 1949 it was 5.54%, and in 1950 it was phenominally close, missing by only .875%. This year the deviation should be less than 2%, which, in view of rising price levels for what we have to purchase, is not far off the beam. And I mean that the 2% represents that we have spent that much *less* than the amount which our budget provided.

I must mention the problems of personnel although there is not time to discuss this matter as I should like. It is a difficult problem today. About a year ago our starting wage was $30 per week and we were told it was unpatriotic to raise wages, and that it would cause inflation. Finally, of course, they were frozen. At the same time the government, acting through another branch, came into the Boston labor market trying to hire girls for Civil Service jobs starting at $45. I quote this example not to complain, but to illustrate one phase of the problem. While the procurement of personnel is extremely difficult, the keeping of it, once secured, is equally important. It calls for an enlightened personnel policy and one which the employees know and understand. It is a fascinating field. Like a reputation, morale is built slowly but destroyed quickly, so we can't let up on our efforts for an instant. Yes, running a life insurance company is fun

The wage and salary stabilization program has put a burden on all companies. We are making a careful effort to conform to the regulations in every way. Additional records we now keep and the legal and paper work involved does cost us something, but we feel it most important to give this program full cooperation.

Personnel is the key to the problem of operating a life insurance company. Personnel in general — at all levels.

The last topic which I want to mention to you is probably the master key of all — it is the development of executives. At first blush it seems so easy and not at all a problem — unless perhaps the problem is selection from a large group of potential candidates. But really, it is a problem, for I have been amazed to see how few men there are who really have the necessary characteristics — who can handle people well, keep an operation moving, who can analyze a problem and put their analysis on paper in logical form, who can make a presentation of all this with sales ability so that others will be persuaded to a sound conclusion. It is interesting to see how differently men do all this; some department heads throw a problem in the chief executive's lap and expect him to handle it, others work out a solution and don't present anything about it until they have at least some idea about how to

handle it. Some just muddle along until someone else steps in because the problem has become so serious. Some men have one special ability, others another. A small thing like diplomacy, or rather the lack of it, holds back many a capable individual. I've seen men work with great promise at one level but fail utterly at another. And please note, a few seconds ago I said there are few men who are candidates for executive *responsibility*. I mean "responsibility". It is a very different thing from "position" or "standing". We give our officers and department heads real responsibility and try to develop it. Yet there are many men who try to avoid it.

It seems to be increasingly difficult to find superior executive talent even though there are more college graduates. This is not a lament, but a statement of surprising fact — and one in which you teachers of insurance should be interested for you are thought leaders and thought moulders. We've gotten a long way from some of the old fashioned virtues. We mostly read about the 40 hour week, time and a half, "feather bedding", unions calling strikes because they don't like a supervisor, automatic pay raises based on length of service alone, regulations of all kinds imposed by the state — such as requiring a company to pay for time spent in preparation of a suggestion to be presented under a suggestion system — and the wonder is that anyone is willing to work hard without stint and give his best thought and efforts to his job in the interest of his employer.

We seriously need men, not just with ability, but with balance; not so much with skills as with a sound philosophy; not with the idea that the world or his employer owes him something, but rather with the idea that he owes an obligation to others which can never be fully paid; that advancement is based on merit and all round performance in a job well done; that responsibility cannot be shirked or shifted. These are all in the field of ideas and men acquire these ideas when they are young — when they are in college. You teachers of insurance should be able to make a real contribution to us in this biggest of all problems.

I'm glad I'm in the insurance business. It's truly a three-ring circus, but it's a lot of fun.

Part II — Review of the Year

Life Insurance

By James S. Elston

Associate Actuary, The Travelers Insurance Company

One of the most interesting features of the year seems to be the dawning realization of how much success what might be crudely termed "it can't happen here" has already had in the fields of life insurance and protection similar to that furnished by it. It appears that the present value of the amounts payable after death to widows and orphans and other beneficiaries under the Social Security Act and other similar systems conducted by and under the auspices of the Government already exceeds the amount of private insurance in the United States.

In *Actuarial Study No. 31*, of September 1951, Louis O. Shudde of the Federal Security Agency, Social Security Administration, Division of the Actuary, on "Estimated Amount of Life Insurance In Force as Survivor Benefits under Social Security Act Amendments of 1950," concludes as follows: "The amount of insurance under the old-age and survivors insurance system may be compared with the amount of insurance in private organizations and in the Veterans Administration as follows:

AMOUNT OF LIFE INSURANCE IN FORCE DECEMBER 31, 1950
(In Billions)

OASI System a/	Veterans Administration b/	Private Insurance c/
$186	$47	$244

a/ Based on the net estimate of this study with a 2% interest rate assumption.

b/ U. S. Government Life Insurance (World War I) and National Service Life Insurance (World War II).

c/ Ordinary, industrial, and group insurance in legal reserve life insurance companies, $234 billion; savings bank insurance, $1 billion; fraternal insurance, $8 billion; and assessment life insurance, $1 billion. Does not include death benefits under annuities.

"Not included in the above is a considerable sum of life insurance in force as survivor benefits under the railroad retirement system, civil service retirement system, and other public systems. On January 1, 1951 the railroad retirement system had in force perhaps $5 billion, and the civil service retirement system about $10 billion of life insurance. Furthermore, private pension plans also had a considerable amount of survivor protection, although their primary purpose is providing retirement benefits."

Mr. Shudde didn't even mention the free insurance protection under the Servicemen's Indemnity Act of 1951, outlined later herein by quotations from H. V. Stirling. No figures are available for this, but on the basis of armed forces 3,500,000 and allowance for the non-duplication of this and the National Service Life Insurance, this might be

of somewhat the magnitude of $25,000,000,000. This would bring the total government-sponsored protection enumerated up to $273,000,000,000. Of course, a considerable amount of this is of a short term nature, especially the provision of incomes to children after the death of the father and until the children reach age 18.

The estimate of the OASI protection is obviously very approximate as it depends upon future mortality rates, remarriage rates, employment rates, retirement rates, and various other assumptions which, of course, are subject to considerable error but which it seems logical to assume have been chosen carefully. The OASI is now increasing considerably faster than private insurance. In the "Forward" to the Actuarial Study, Robert J. Myers, Chief Actuary, Social Security Administration, lists nine features of the 1950 Amendments to the Social Security Law which are causing huge increases in the amount of protection provided. The greatest increases are to become effective July 1, 1952, after most of the people covered have completed their six quarters' contributions under the new law.

Mr. Shudde concludes: "As indicated previously, the entire effect of the 1950 Amendments has not yet been felt because the new benefit formula and the extended coverage will not be effective benefit-wise until the middle of 1952. As a rough estimate, the amount of survivor insurance protection will be increased by about one-third by these two factors so that as of the beginning of 1953 the total under the gross estimate will be about $280 billion using a 2% interest basis and $255 billion at a 3% interest rate. Under the net estimate, which is somewhat more realistic, the corresponding figures are $250 billion and $225 billion respectively."

Even using the lowest of these estimates the grand total of all this protection under government auspices will then probably exceed $310,000,000,000. This makes no allowance for increases under the 1951 Amendment to the Railroad Retirement Act which provided increases of 15 per cent to pensioners and 33⅓ per cent in survivors' benefits — all with no increase in the existing payroll taxes of the act.

The United States legal reserve life insurance companies had about $261,900,000,000 in force December 31, 1951, an increase for the year of 8.2%, it is estimated by the Life Insurance Association of America. This includes $165,700,000,000 Ordinary, $36,000,000,000 Industrial and $60,200,000,000 Group. These figures include insurance in other countries, almost entirely Canada. The estimated total, net of reinsurance, on Continental U. S. residents on about 86,000,000 policyholders is $253,200,000,000, an increase of 8.2% in 1951. This total is distributed $160,000,000,000 Ordinary (increase of 6.8%), $34,900,000,000 Industrial (increase of 4.7%), and $58,300,000,000 Group (increase of 14.5%).

There is also about $8,500,000,000 insurance in force in fraternal orders, $440,000,000 in assessment organizations, and $632,000,000 of Savings Bank life insurance in Massachusetts, New York, and Connecticut, or a total of private insurance of about $262,500,000,000. There is still something like $2,000,000,000 U. S. Government Life Insurance on veterans of the first World War and $45,000,000,000 of National Service Life Insurance resulting from the last war and the Korean action.

The new paid-for business of United States companies for 1951,

not including revivals or increases, is estimated at $30,850,000,000. The total on United States policyholders only is estimated at $29,148,000,000 (decrease of 5.0%), the new Ordinary being $18,732,000,000 (increase of 4.4%), the Industrial $5,510,000,000 (increase of 2.0%), and the Group $4,906,000,000 (decrease of 33.0%). The payments to policyholders and beneficiaries are estimated at $4,000,000,000, of which about 57% represents payments to living policyholders. In addition, $750,000,000 was disbursed under accident and health insurance contracts. The comparatively small increase in Ordinary and the great corresponding increase a year ago were both largely owing to the abnormal amount of new business in 1950 sold within a few months after the inception of hostilities in Korea.

The surprising reduction in Group new business, which dominates the 1951 new business picture, was caused by the freezing very early in the year of increases of employee welfare benefits under the various stabilization orders applicable to wages and salaries and the subsequent inability of the Economic Stabilization Administration to reach any decision on their proper treatment.

Lengthy discussions and a number of hearings were held before a tripartite panel of labor, industry, and public members appointed by the Wage Stabilization Board. The labor and public members submitted a joint majority recommendation to the Board October 22, and this was followed by a minority "Report of the Industry Members" October 31, 1951. The latter agreed that many health and welfare benefits should be established or extended under certain conditions without requiring prior Wage Stabilization Board approval but maintaining that the majority report recommendations represented almost "no control whatsoever, even though the forty-five pages of report and thirty-five pages of appendices have been presented to confuse the Board and convince them that the recommendations do in fact represent adequate control."

The Board issued General Wage Regulation 19 and Resolution No. 78, establishing a largely self-administering policy for the establishment of new health and welfare plans or the modification of old ones. This became effective December 23 after approval by the Economic Stabilization Director. The benefits covered are: temporary disability, hospital expense, surgical expense, in-hospital medical expense, group life insurance and accidental death and dismemberment benefits.

Any proposed plan must be filed on a prescribed form with the Board. If it does not include any of the benefit features named in a set of standards called "Review Criteria" for each particular benefit category it generally may be put into effect with regard to either the whole plan or a portion unless a negative reply is received from the Board within 30 days after being acknowledged by the Board.

If a plan varies from the benefit definitions in the Regulation or contains any of certain features listed in the "Review Criteria," it must be acted upon by a special tripartite Health and Welfare Committee on a case-by-case basis. Contributory plans under which the employee pays at least 40 percent of the gross cost of any benefit will in any event be automatically approved.

The "criteria" which require referral of a plan for approval include Group life insurance (except for retired employees): A death benefit on any basis other than a group term or equivalent basis, or which provides any cash surrender, paid-up or nonforfeitable loan value; an average death benefit per insured employee, including benefits under an existing plan in excess of either 85 percent of the average compensation of the insured employees, or $1500, whichever is the greater; a permanent and total disability benefit in excess of the face value of the policy. Similar benefit ceilings are placed on accidental death and dismemberment benefits.

The "criteria" for temporary disability, hospital, surgical and in-hospital expense include restrictions on duration of benefits; unusual types of benefits especially such as are more expensive than normal; surgical fee schedules in excess of the appropriate Veterans Administration, prepayment surgical plan or standard $200 commercial insurance fee schedules; major surgery at home or office, and others.

Regulations have not yet been issued governing establishment of new pension plans or greatly extending old ones. The Salary Stabilization Board has announced that health and welfare plans for salaried workers may be put into effect without prior approval if they meet Wage Stabilization Board Criteria. The latest comprehensive statistics available for the legal reserve life insurance companies as a whole are for 1950.

LEGAL RESERVE LIFE INSURANCE — 1950*

(Dollars in Millions)

Premium Income	$ 8,050	Real Estate	$ 1,445
Investment Income	2,065	Mortgages	16,102
Other Income	942	Bonds	39,366
		Stocks	2,103
Total Income	11,057	Collateral Loans	12
Death Claims Paid	1,594	Loans to Policyholders	2,413
Matured Endowments	494	Cash	1,005
Annuities and Disability	390	Deferred and Unpaid Premiums	1,007
Surrender Values Paid	666	All Other Assets	567
Dividends to Policyholders	679		
Accident and Health Benefits	417	Total Admitted Assets	64,020
Total	4,240	Liabilities	58,682
Other Disbursements	2,710	Capital and Surplus	5,338†
Total Disbursements	6,950		

†Includes amount set apart for dividends to policyholders during following year and special, voluntary, contingency, etc., reserves.

	Ordinary	*Industrial*	*Group*	*Total*
New Issues and Increases	$19,781	$6,433	$10,930	$37,144
Terminations:				
Death	1,143	221	296	1,660
Maturity	313	164	—	477
Surrender	1,925	1,023	17	2,965
Lapse	3,818	3,028	494	7,340
Other	2,013	467	669	3,149
Total	9,212	4,903	1,476	15,591
Insurance in Force	155,071	34,391	52,556	242,018

*Spectator Insurance Year Book — All United States companies (440).

As it would be presumptuous for the writer to even try to cover so many life insurance developments as effectively as various authorities in the different phases, various pertinent abstracts from their speeches and writings will be included herewith.

James J. O'Leary presented to the Life Insurance Association of America the following estimates of admitted assets as of December 31, 1951. These estimates are based on 10-month actual records for about 130 companies which at the end of 1950 accounted for 96 per cent of the assets of all United States legal reserve companies.

Investment Cases	*Amount Outstanding**	*% of Total*	Increase *During 1951**
Bonds—U.S. Government	$11,050	16.1	$—2,409
State, County & Municipal	1,200	1.8	50
†Canadian	1,503	2.2	70
†Other Foreign	22	.0	—2
Total Government	13,775	20.1	—2,291
Railroad	3,275	4.8	88
Public Utility	11,200	16.4	613
Industrial & Miscellaneous	11,500	16.8	1,974
Total	39,750	58.1	384
Stocks—Railroad	125	.2	—3
Public Utility	750	1.1	78
Other	1,475	2.1	172
Total	2,350	3.4	247
Mortgages—Farm	1,525	2.2	198
Other	17,950	26.2	3,175
Total	19,475	28.4	3,373
Real Estate	1,650	2.4	205
Policy Loans and Premium Notes	2,600	3.8	187
Cash	1,025	1.5	20
Other Admitted Assets	1,650	2.4	64
Total Admitted Assets	68,500	100.0	4,480

*000,000 omitted

†Includes all political subdivisions

Mr. O'Leary's statistics on investments compared with reserves by sections of the Country may be summarized as:

(FOR 49 COMPANIES REPRESENTING 88.3% OF THE ADMITTED ASSETS OF ALL U.S. LEGAL RESERVE LIFE INSURANCE AT THE END OF 1950)

	Investments†*		*Reserves†*	
Division	*1950*	*Increase*	*1950*	*Increase*
New England	$ 2,558	$—45	$ 4,113	$200
Middle Atlantic	11,455	280	16,012	915
East North Central	10,045	453	11,084	635
West North Central	4,338	223	4,154	221
South Atlantic	6,356	521	4,129	268
East South Central	2,828	150	1,505	83
West South Central	5,318	597	1,926	138
Mountain	1,744	230	1,040	78
Pacific	5,542	673	4,075	258
Territories and Possessions	113	12	118	15
United States	50,297	3,094	48,156	2,811
Canada and Other Foreign	2,670	148	981	53
Not Allocated	3,547	403	121	1
Total	56,514	3,645	49,258	2,865

*Distribution of investments is in accordance with the geographic location of the properties securing the investments, with United States Government bonds allocated on a population basis.
†000,000 omitted

Mr. O'Leary's further report to the Life Insurance Association of America included: "The rate of investment earnings increased to 3.07 percent in 1950, a gain of 5 basic points. As in 1949 this gain was traceable in large measure to the declining proportion of low-yielding United States Government bonds held by the companies and to the rapid expansion of mortgage loan portfolios. However, the accord reached in March of this year between the Treasury and the Federal Reserve Board, whereby rigid support above par of the Government bond market was abandoned, offers grounds for hoping for better returns on all new investments in the future. This accord was perhaps the most significant development to occur in the monetary field since the war.

RATE OF INVESTMENT EARNINGS TO MEAN LEDGER ASSETS LESS ONE-HALF INVESTMENT EARNINGS

Year	*Rate*	*Year*	*Rate*
1930	5.03%	1946	2.91%
1935	3.68	1947	2.87
1940	3.44	1948	2.94
1945	3.09	1949	3.02
		1950	3.07

"The New York law, which in substance applies to all companies doing business in New York State, is of great significance in the insurance world, and this law is one of the strictest in the country. From 1906 until this year New York State has not permitted the purchase for in-

vestment of any common stocks. It still does not allow the lending of life insurance funds to unincorporated businesses except as a first mortgage on property. While it has permitted investment in preferred stocks, the statutory qualifications are very high—only issues having long records of favorable earnings are eligible for consideration."

The 1951 Amendment now "permits life insurance companies to invest in common stocks (except bank and insurance stocks) up to a limit of 3 per cent of assets or one-third of surplus, whichever is less. The new provisions also relax somewhat the earnings requirements on corporate obligations and preferred stocks and permit investment in leasehold estates in improved unencumbered real property located in the United States. When necessary to protect an outstanding loan, companies may also purchase or lend on farm equipment and livestock, thus opening the way for extending accommodations sometimes badly needed by farmers, and heretofore not permitted by law.

"Up to last March the Federal Reserve Board had maintained for many years a market for Treasury obligations at prices above par in an effort to facilitate management of the public debt. This enabled and even encouraged both the commercial banking system and institutional investors in the postwar period to sell Government bonds to help meet the great needs for capital funds which developed in the private economy. However, during most of the postwar period the Treasury was retiring marketable debt, and as a result the Federal Reserve System was able to support the Government bond market without increasing its holdings of Government obligations.

"Following the outbreak of the Korean war, however, a sharp increase in the demand for goods and services occurred and the commercial banks and other financial institutions were called upon to supply a large volume of funds to the private economy. This precipitated an increase in the sale of Government bonds by many institutional investors. During the fall of 1950 and the ensuing winter a large proportion of these sales found their way into the portfolios of the Federal Reserve Banks. Their holdings of United States Governments increased by $2.4 billion from June through December 1950 and rose another $2.1 billion during the first quarter of 1951.

"The reserves of the member banks increased with the Federal Reserve's holdings of Government obligations. By the early part of 1951 it was apparent that the Board could not cope with the inflationary situation while still supporting the prices of Government bonds. Responsible officials of both the Treasury and the Federal Reserve Board searched for a solution, which finally was reached in the well-known accord of last March.

"By the terms of this accord, the Treasury offered to exchange 2-¾ per cent nonmarketable bonds, par for par, for the outstanding 2-½ per cent bonds maturing in June and December of 1972. The 2-¾ per cent bonds are callable in 1975 and mature in 1980. While they are not marketable they are convertible into a five-year 1-½ per cent note, on a par for par basis, and this note is fully marketable. The Federal Reserve System, soon after the accord was announced, permitted the prices of long Governments to decline below par.

"The life insurance companies announced their full support of

this move to tighten credit and call a halt to the inflation of commercial bank reserves through the acquisition of Government bonds by the Federal Reserve Banks. Pursuant to the exchange offering, the life companies turned in $2.9 billion, approximately 90 per cent, of their holdings of the 2-½ per cent bonds. The disposal of United States Government securities by the life insurance companies continued for a while after the accord, largely to meet outstanding commitments, but as holdings of short-term Governments were built up and new commitments were curtailed, sales began to decline. The potential loss on Government securities as a factor in deterring further sales was reinforced by a growing awareness on the part of life insurance management that holdings of these securities were reaching a point of portfolio balance. The overall effect of the accord on life companies was to cause them to restrict new investment commitments much more nearly to the flow of cash received from other sources than the sale of Government securities.

"Section 708 of the Defense Production Act of 1950 authorized the President to encourage financing institutions to enter into voluntary agreements and programs to restrain credit. By executive order the President delegated this authority under certain conditions to the Federal Reserve Board. The Program for Voluntary Credit Restraint was placed in effect in early March of 1951. The Program states in essence that in a period of inflationary danger a sound loan is one which commensurately increases or maintains production, processing, and distribution of essential goods and services. Such loans include loans for defense production, loans for the production of agricultural and staple products and products essential to the day-to-day needs of the country, loans for augmenting working capital where necessary to maintain essential production, and loans to security dealers in the normal conduct of their business. On the other hand, loans to retire or acquire corporate equities in the hands of the public and for speculative investments or purchases are inflationary and in the absence of modifying circumstances should not be extended to borrowers. These general principles have been spelled out in greater detail in a series of bulletins which have been issued by the National Voluntary Credit Restraint Committee.

"To implement the Program and govern activities under it, the Federal Reserve Board set up the National Voluntary Credit Restraint Committee. It consisted at first of twelve representatives, four each from the life insurance companies, the investment bankers and the commercial banks. Subsequently two representatives each of the mutual savings banks and the savings and loan associations were added. The major financial institutions promptly announced their unqualified support. The Program has been able to defer many loans that otherwise would be adding to the demand for goods and services today. The success of this voluntary effort of self-policing is a significant development in the struggle to preserve free markets in the American economy."

In September, the Institute of Life Insurance reported that the loans made by the life insurance companies in support of the defense program might reach $3,500,000,000 for 1951. The loans for defense or

defense-supporting purposes represented two-thirds of all loans made in the first six months by the life companies to business and industrial concerns, and the ratio had been increasing since mid-year. The greater part of the life insurance defense loans have been for plant and equipment. Even the non-defense loans made to business by the life companies have been chiefly for plant and equipment so that they have been aids to greater productivity. A considerable volume of defense loans has been extended to small businesses through the medium of mortgages and also through investment in real estate for defense use. More than $100,000,000 has been put to work thus far this year in this way.

Bruce E. Shepherd, Manager of the Life Insurance Association of America, covered many phases of its work including: "In an effort to evolve a plan whereby the life insurance companies could take some steps to protect themselves from the hazards of modern warfare without recourse to government subsidy or instrumentality, our Joint War Problems Committee has worked out a method of pooling catastrophe risks. Up to the present time certainly nothing of this character and magnitude has ever before been attempted by the life insurance business. The plan envisages a huge clearing-house system whereby the civilian losses from modern warfare are to be equalized through a pool so that an uneven distribution of those losses among companies would be less likely to embassass any of them. The pooling operation would be limited in its scope, as was necessary if the maximum number of companies were to benefit by it. It is no cure-all and it would accomplish only limited objectives but it seems to be a step in the right direction." Details still have to be worked out.

"Wage stabilization by the Federal government has had special applications to the life insurance business, involving serious problems not shared by employers in other businesses. Application of the principle of wage stabilization to pension, health and welfare plans has had a very dampening effect on the sale of life insurance policies for pension plan purposes, and perhaps an even more serious effect on the establishment and improvement of group insurance and group annuity programs. More recently it has appeared that life insurance commission rates will be controlled in a manner somewhat different from that for employee salaries. To the credit of our business, we have not asked for special consideration which would run counter to basic anti-inflationary measures."

H. V. Stirling, Assistant Administrator for Insurance in the Veterans Administration, said in *The Eastern Underwriter* of October 5, 1951: "On April 25, 1951, there was enacted into law important and far reaching legislation affecting the government life insurance program. This legislation, Public Law 23, 82nd Congress, embodies the Servicemen's Indemnity and Insurance Acts of 1951. The two primary purposes of this legislation, as expressed by the Congress, were to provide a uniform protection against death to all members of the armed services and to effect reductions in administrative costs of the government life insurance program. The Act provides free insurance protection in a maximum amount of $10,000 less any amount of government life insurance in force on the date of death. This amount is payable in

120 equal monthly installments, with interest at 2¼% upon the death of persons in the active service of the armed forces and certain others. The beneficiaries of the indemnity are limited to specified classes.

"If a person in active service should desire to become entitled to indemnity protection, the permanent plans of insurance may be surrendered for their cash value and within 120 days after separation from service the insurance so surrendered may be reinstated or replaced by a new policy on the same plans in an amount not in excess of the amount surrendered. Such reinstatement or replacement may be accomplished on a non-medical basis.

"One of the most important provisions of Public Law 23 is that which precludes the issuance after April 25, 1951 of National Service Life Insurance or United States Government Life Insurance, under the provisions of prior law, except as to policies issued to replace those surrendered for cash. In order to make insurance protection available to persons who upon discharge from service are not otherwise entitled to government life insurance, the new law makes available two new types of National Service Life Insurance. One of these provides protection for those who have incurred a service connected disability which, if 10% or more in degree, would be compensable. Such persons may apply for National Service Life Insurance on the same plans as were available prior to April 25, 1951. Applicants for this type of insurance must be in good health except for the service connected disability. This insurance is non-participating and the settlement of policies involving annuities is on the basis of the Annuity Table for 1949 with interest at the rate of 2¼%. Premium rates are based on the Commissioners 1941 Standard Ordinary Table of Mortality and interest at the rate of 2¼%. The other type of new National Service Life Insurance is (the corresponding) five-year level premium term insurance which may be secured non-medically upon application made within 120 days of separation from service and is renewable and nonconvertible.

"As of June 1951, there were approximately 470,000 U. S. Government Life Insurance policies and over 7,000,000 National Service Life Insurance policies in force."

In a report by Henry R. Glenn, covering many legislative and legal activities of the Life Insurance Association of America, he said: "Although this legislation (on National Service Life Insurance) was intended to replace the existing NSLI system, the danger is present that pressures for permanent insurance plans will eventually result in amendments to superimpose most or all of the old NSLI program on the new Government indemnity system. Some justification for this fear already is to be found in the enactment of legislation authorizing the renewal of certain NSLI and USGLI policies, and in the introduction of several bills to restore certain NSLI rights. While the companies did not take an official position with respect to the gratuitous indemnity plan, an analysis of the various proposed approaches, with their advantages and disadvantages, was presented by a spokesman for the business.

"The Commissioners' model Group Life Insurance Bill, with modifications, was enacted in Kansas, Oklahoma and West Virginia, while

Ohio incorporated a variation of some of its provisions. Laws based upon the model bill are in force in 22 jurisdictions. The Uniform Photographic Copies of Business and Public Records as Evidence Act, which was approved in 1949 by the National Conference of Commissioners on Uniform State Laws, became law this year in 17 jurisdictions, while the Model Individual Accident and Sickness Policy Provisions Law, which the Commissioners adopted at their Quebec meeting in June of 1950, was enacted in 17 states during 1951. Alabama, Idaho, Missouri, New Mexico North Dakota and West Virginia passed the Unauthorized Insurers Service of Process Act. Twenty-four states have now approved this legislation which is designed to strengthen state supervision. The Unfair Trade Practices Act became law in Hawaii. This is another model statute which 26 states had previously enacted.

"There was continued activity in the field of cash sickness during 1951. All existing laws in the states of Rhode Island, California, New Jersey and New York were amended, but the only change of major importance occurred in California. No additional compulsory disability or cash sickness laws were passed, although bills to enact such laws were considered in 13 states. As was the case last year, the greatest interest in such legislation developed in Massachusetts, although there was considerable activity in Maryland, New Hampshire and West Virvinia. One state, Michigan, passed legislation creating a Study Commission."

In an address on inflation, taxation, and encroachment of government before the International Claim Association, Eugene M. Thore' said: "A temporary stop-gap formula (for life companies' federal income tax), applicable to the tax years 1949 and 1950 was adopted by Congress, under which the reserve interest deduction was determined through a new mehtod of industry averaging. Subsequent studies demonstrated, however, that this new method was unfair to many companies and, if permitted to continue in effect, might jeopardize the solvency of some companies whose actual reserve interest requirements were substantiallly higher than the industry average. This discoverv produced practically unanimous opposition within the business to an extension of the stopgap formula. Out of protracted efforts came the new 6-½% proposal. This new plan subjects each life insurance company to a tax of 3¾% on its first two hundred thousand dollars of net investment income and 61¼% on its net investment income in excess of two hundred thousand dollars. In arriving at net investment income, no deduction is allowed for reserve interest. However, in the case of companies experiencing difficulty in meeting reserve interest requirements, a special reserve interest credit is to be deducted from their taxable income."

In a review of underwriting in *The Eastern Underwriter,* Leigh Cruess said: "Underwriting of so-called war risks continued to be an outstanding problem. Companies are following certain general lines of underwriting war risks. With respect to Service personnel they have divided into two groups, one group issuing with War and Aviation restrictions and the other issuing limited amounts, generally $5,000 or $10,000, without such restrictions. A recent survey of about 300 U. S. Companies showed 65% of them using war clauses. As to civilian risks liable for service in the armed forces — draftees, reserves,

National Guard — the almost universal practice is to issue without war restrictions but to limit amounts and plans, these restrictions varying according to the order of priority in liability for service. It is this order of priority that has created problems for the home office underwriter. He can discern no clear-cut plan for calling up the various classes of reserves and the situation with regard to draftees is even more troublesome because of the frequent changes in deferment policies and the differences in enforcement by local Selective Service boards. His goal is to offer insurance with no restriction as freely as possible without permitting clear-cut antiselection.

"Aviation is a problem closely tied up with that of war risks. Civilians who were flying personnel in the armed forces during World War II are almost all in the reserves, active or inactive, and present the problem of recall to duty. Generally, these risks are being accepted without restriction if they have done no flying since separation from service after World War II. For flying personnel in the armed forces there has been developed full aviation coverage within a designated home area which in some companies takes in all the Western Hemisphere. This coverage is offered at extra premiums usually the same as those which prevailed during peace time.

"Today almost everybody seems to be earning more dollar income but some groups in particular are doing exceptionally well and large amounts of insurance are being purchased on the basis of current income. There are the business men with war orders, farmers, doctors and dentists, and others. Even in the moderate income group we are seeing applications for unusual amounts of insurance. This arises from a combination of the newer sales techniques which program for needs and the decreasing term plans devised to meet many of the needs—family income plans, mortgage protection plans, etc. Young married men with income up to about $6,000 make up a large proportion of this group. While the amounts of insurance at risk seem large by previous standards, applications are being accepted in most instances.

"Those of us who underwrote large risks in the roaring Twenties and saw the chickens come home to roost in the early Thirties still find it difficult to feel comfortable about large risk underwriting, particularly in those cases where a large portion of the insured's income is used to pay life insurance premiums. We know that in a depression period the mortality on large risks rises sharply, whereas the mortality on risks of moderate amounts remains relatively stable. We have been in a boom period for a long time and we must not lose sight of the fact that our present undertaking will someday be tested by hard times. We hope the business will prove to be sound but we cannot forget the fact that our young applicants today, those under 35 at least, have never gone through a depression in their business lifetime.

"The year has witnessed continuation of the trend toward increasing the area of insurability by raising the maximum mortality accepted by individual companies. As yet 500% estimated mortality is the top figure for the industry. Studies have shown favorable mortality results on substandard in comparison with the premium basis and this has led to increased amount limits for respective substandard rating classes. It has

also led in a few companies to reductions in substandard extra premiums for medical impairments for the same mortality class. Reductions of extra premiums have also been made in rating schedules for occupation and for foreign residence.

"Not so many years ago declination rates in many companies ran from 10% to 13%. Principally because of the extension of substandard underwriting these rates do not now exceed one-quarter of this figure. To show the importance of this development, substandard issues now amount to something in excess of a billion and a half a year for the industry and substandard insurance in force amounts to more than nine billion dollars. This additional service to the insuring public has been made possible by an analysis of past experience resulting in the development of more accurate knowledge in this field, and presently nearly all companies are competing actively for their share of this business.

"Expanding non-medical programs are resulting in increasing proportions of business being submitted without examination. Somewhat over half of life insurance applications are on the non-medical basis. The trend in Juvenile contracts is to make the ultimate amount payable at younger ages. In at least one company this is now age 6 months.

"More and more underwriting procedures are being reviewed from the standpoint of their economic value—does a specific procedure cost more than it can save a company in weeding out poor risks? Increasing costs of medical examinations, of medical information from doctors and institutions, of fees for special tests, as well as increasing home office expense, are the spur for elimination of uneconomic procedures even though some of the steps may appear radical by previous standards."

Progress in heart disease research was discussed at the meeting of Institute of Life Insurance by M. Albert Linton who said that in the past six years the fund established by the life insurance companies had given grants in aid to 164 individual research programs and to finance 165 individual fellowships. They have been carried on in more than 75 hospitals and research insitutions.

In an article in *The Eastern Underwriter* of October 5, 1951, Wallace L. Clapp said: "The accident and health insurance picture is becoming considerably enlarged by the growing interest in the past year of the larger life companies in entering this field. Since the first of August announcements have been made almost weekly and the indications are that non-cancellable A. & H. as well as the cancellable policy contracts will be featured by some of the newcomers. Then the already keen competition among the A. & H. writing companies will be even keener. Over and above these newcomers there are at least 15 more which are studying the possibilities of writing personal A. & H.

"The trend is convincing evidence of a growing realization among these carriers that they have a social responsibility to protect the American family against the financial costs of accidents and sickness. The vast majority of all wage earners need protection against the loss of earned income by sickness and accident. The loss of their income, even for a few weeks, can be a very serious thing. Basically, men buy life insurance because their earned income may be destroyed before the need for this earned income has passed. Earned income can certainly be destroyed by death or old age, but it is equally certain it can be destroyed by dis-

ability. If the insurance companies do not provide this protection for the public, the danger of further Federal encroachment on the insurance business can be foreseen." Another factor in the trend is that many companies have recently entered the Group accident and sickness business and making similar insurance on an individual basis available to life policyholders through their own agents was a logical consequence. "With individual A. & H. policies in their kits, agents of a company will have the tools to supplement and increase their life insurance sales. Furthermore, the new A. & H. facilities will serve as a door-opener and give the agent an opportunity to revisit old policyholders. It will be of material assistance to new agents as it will help them get on an income producing basis more quickly, and help finance new agents."

Four of the largest companies announced their readiness to write major medical expense or medical catastrophe insurance. At least two companies are writing both individual and group plans. One company's "plans are available to groups of 25 or more employes. While there is a variation in rate for age, income and location, the cost under a policy issued in New York or Chicago to a group with a normal age and income distribution, $300 family budget deductible, 20% coinsurance and a $5,000 maximum, would be $2.02 per month for the employe, $3.03 additional for his wife and 81 cents additional for his children. Two basic plans are: (1) the each-illness plan and (2) the family budget deductible plan. Maximum payment under the each-illness plan for any one person may be $5,000, $3,000, or $2,000. As to the family-budget deductible plan the maximum payment for any one person was set at $5,000 or $3,000."

Another company's program includes "six different plans. Annual premiums range from $24 to $175. The policies will be written on the basis of a health questionnaire without medical examination. Under the family plan husband and wife are accepted up to age 55 and unmarried children from birth to age 18. Policies written on an individual basis have the same maximum age—55—and the same maximum benefits of $2,500 and $5,000, as in the family plans. These limits, it is explained, hold for each and every illness and non-occupational accident requiring hospitalization. The coinsurance angle is that the insured must pay 25% of his medical expenses in excess of deductible clauses ranging from $100 $300 or $500, depending on the policy issued." The company will pay the remaining 75%.

Mr. Irving Davis, in an article in the November issue of *The Spectator* said: "A number of important trends that were developing in the accident-health-medical-care field over the past few years reached tidal proportions in 1949 and 1950.

1. The beginning of the New York Disability Benefits Law, which went into full effect July 1, 1950.

2. The entry into the field of additional life, casualty and multiple-line companies. The move into group lines—almost a stampede in 1950—began in 1949. Group increases is closely linked with the entry of dozens of companies into accident and health or into group A. & H. for the first time. Nine life and thirty casualty companies entered the group field in 1950."

The debut of some life companies into accident and health had not reached the proportions in 1950 it was to attain in 1951. Some big life companies have joined the trend and "for that reason this may be put

down as one of the turning points in the history of disability insurance. For there is no doubt that the effects of their action will be important — on volume, on prestige of the business, on commission scales, perhaps on underwriting approach. It will very possibly speed experimentation in new forms of coverage and could influence the thinking of government with respect to disability insurance.

3. Conscious efforts of old and new companies in the field to forestall federal health insurance and monopolistic state plans.

4. Increased emphasis on writing over-age persons, and those in hazardous occupations.

5. More attractive plans: increased hospitalization and other medical-expense benefits; extension of the dependent rider; the spread of so-called "catastrophe" medical expense covers; greater activity by special risk departments on air and travel covers; sports and student covers; less restrictive contracts.

6. Continuing coooperative efforts among hospitals, physicians and various groups within the insurance industry to provide pre-paid medical expense plans on a more convenient basis.

"The Bureau of Accident & Health Underwriters' survey of 55 companies shows that: 31 renew male risks beyond 65 and 26 renew women beyond this age. Ten companies had no age limit for men or women—quite an advance in a relatively short period of time. An estimate for older people covered under hospital policies is 3,850,000 or about 5 percent of the 77 millions now said to be insured under such policies."

In a brief review only highlights of other forms of broadened coverage can be noted: "More companies adopting 'accidental bodily injury' clauses. More companies eliminating the aviation accident exclusion. Inclusion of grace periods. The adoption by all states except California of the dependent rider, under which the dependent members of the insured's family may be covered in one rider: At present nine life companies and 23 multiple-line casualty companies out of 66 Bureau-member companies issue or plan to issue this endorsement—some only with weekly indemnity accident contracts, some for both accident and health policies, some on only hospitalization policies, and some for all three.

"Larger daily hospital benefits: Now from $8 per day to as high as $15 or $20 per day, compared with $5 daily a decade or so ago; miscellaneous expenses (x-ray, diathermy, drugs in the hospital, etc) 10, 15, or 20 times the daily rate, or riders providing an extra $100 or $200; 70, 90 or 100 days of hospital confinement—not just 30 days as formerly. Even these are all averages — some companies have no limits on some hospital coverages. Most companies are offering maternity benefits in a limited amount: 23 out of 33 queried provide such benefits, 20 offering 20 times the daily room benefit.

"Aviation and travel policies—frequently group covers, but thousands of individual contracts—provide all sorts of new coverage from conventions and outings to hazardous occupational coverage such as diving, crop dusting, assignments of newspapermen in war zones; key-men or all employees covered for all kinds of air travel.

"So far as weekly indemnity benefits are concerned some 37,000,000 persons are estimated to be covered (this includes those on paid sick

leave). This is about 57 per cent of the present working force of the nation.

"So far as hospital-expense coverage is concerned, latest reports are that 77,000,000 have this form of protection either through the commercial companies or the non-profit organizations. Surgical-expense insurance and medical-expense coverage, while growing fast, do not protect anywhere near this many people (surgical, 54 millions; medical expense, 21 million, according to the Health Insurance Council survey)."

In the *Journal of Commerce* of January 24, 1952, C. O. Pauley estimated that "the premium income in 1951 should be over $1,700 million—an increase of 21 per cent over 1950. These figures exclude Blue Cross and Blue Shield premiums. With the latter included the figure will exceed $2,200 million."

From *The Eastern Underwriter* report of the May Meeting of Life Insurance Association of America we find: "Because of the many problems which have grown up in connection with this market the various segments of the health insurance industry have recognized the need of working together in order to do a better job of providing sound health insurance coverages. With that thought in mind there was formed in September, 1946, the Health Insurance Council through which insurance companies could do their part in this joint effort. The Council is composed of nine trade associations. They are Health & Accident Underwriters Conference, American Life Convention, American Mutual Alliance, Association of Casualty & Surety Companies, Association of Life Insurance Medical Directors, Bureau of Accident & Health Underwriters, International Claim Association, Life Insurance Association of America and Life Insurers Conference. The Blue Cross—Blue Shield plans, as such, are not represented on the Council. It is strictly an organization of insurance companies' trade associations, but there is cooperation with the Blue Cross and Blue Shield groups and in setting up surgical plans.

"Since 1946 the Health Insurance Council has engaged in three main activities. The one which has received the widest recognition has been the statistical surveys made and reported in the booklet 'A Survey of Accident and Health Coverages in the United States.'

"The second activity has to do with hospital admission plans. It is hoped to be made possible for the insured individual to enter a hospital without being required to pay a deposit, or at least to limit to the extent possible, the amount of the deposit.

"The third area of the Council's activity is the one which has been most troublesome. It has to do with development of plans sponsored by state medical societies and designed to be underwritten by insurance companies. Such plans have been developed in Wisconsin, Rhode Island, Maine, Tennessee, and recently in Georgia. These plans start primarily with a surgical fee schedule and extend coverage as experience is gained, into other arenas, such as medical care and diagnostics. The plans have been difficult because they have meant that the doctors had to understand an insurance program as well as a change in the insurance

companies' administration of their program. To the doctors, it meant averaging fees in traditionally high cost areas with those in low cost areas. It meant averaging the fees of specialists and general practitioners. To the insurance company, it meant many hours of work explaining insurance company operation to the doctors in order that the medical men may know what type of a plan they were creating and running. It meant development of special policies, special fee schedule, etc. It meant submitting the forms for approval."

Several interesting compilations, most based on special requests to the companies for information, have been released by the Institute of Life Insurance during the year.

"The number of persons owning annuity contracts has doubled in ten years. At the start of this year, there were 3,650,000 annuity contracts in force. At least $1,280,000,000 a year will be available as income from such plans now in force. About one-fourth of this income is already payable and the balance is due to begin in the future. The rapid growth of annuities in this country is a direct reflection of the mounting interest in pension planning and retirement consciousness. The growth has been especially sharp in the case of group annuities, which have been used extensively in setting up insured pension plans for worker groups. The group annuities in force at the start of this year covered 2,198,000 workers and represented annual income of $593,000,000. Those are fully paid-for units and the eventual income will be much larger, as additional annual units are added year after year under employer-employee arrangements. Group annuities have quadrupled in the decade in number of persons covered and the amount of income fully paid for has increased five-fold. Individual annuities have also gained materially in recent years, there being 1,235,000 outstanding at the start of the year with $585,000,000 annual income established under these. An additional 217,000 annuities were in force at the turn of the year under supplementary contracts of life insurance policies, representing $102,000,000 annual income provided by proceeds from the life policies.

"Nearly 8,500,000 applications were made for ordinary life insurance policies in 1950. All but 278,000 applications were accepted by the companies. Of these policies actually issued and paid for, 92 per cent were at standard rates and 8 per cent were on an extra premium basis. The principal causes of rejection were heart disease in one or another of the group of cardiovascular-renal ailments (45% of rejections) and weight, chiefly overweight. Heart cases represented 20 per cent of the nearly 600,000 applications accepted on the extra rate basis and cases rated for occupational hazards about one-third.

"For the past several years, the ratio of premiums to national income has ranged between 2.9 per cent and 3.2 per cent. Back in the Thirties the ratio fluctuated between 4 per cent and 9 per cent. In 1950 it was 30 per cent. This is actually a very small part of the national income to be used for basic family protection. It is an average of only about $85 per policyholder and only about $160 per family. The average life insurance per family is only $5,100.

"More than $600,000,000 of life insurance protection will be kept in force this year through the 'waiver of premium' clause which maintains premiums for persons permanently and totally disabled through accident or sickness.

"The buying of life insurance on a monthly payment basis has increased substantially in recent years and today accounts for more than one-fourth of all ordinary insurance policy purchases. It is estimated that some 2,000,000 ordinary policies were bought on the monthly premium basis this year, providing at least $4,000,000,000 of protection.

"The amount of life insurance on children issued during the year was $3,300,000,000, several million youngsters being newly insured. Total juvenile life insurance in force is now $17,000,000,000.

"Women in the United States have bought nearly $20,000,000,000 of life insurance since the end of World War II. This unprecedented buying of policies by women was capped in 1950 by the purchase of $4,500,000,000 of new protection. The $44,000,000,000 of life insurance now owned by the women of this country exceeds the amount owned by the total population of any other country for which comparable figures are available."

"New annual statement blanks were used by life insurance companies in 1951, incorporating the most important changes in the reporting system in 75 years. There are now some 3,000 entries in the annual report blank, making it one of the most comprehensive annual reports filed with public authorities by any business. Each company's report runs to a minimum of 40 large-sized pages and in some cases is several times that. The new forms, approved and distributed by the 48 state insurance commissioners, are the result of ten years of study and work by special committees of the National Association of Insurance Commissioners and of the Life Insurance Association of America and the American Life Convention. The revisions were adopted with the primary objective of making the life insurance companies' annual reports clearer to those outside the business and to bring the statements more in line with the general practices in the reporting of business and industrial concerns.

"One of the major changes is the showing of 'net assets,' eliminating the long-standing confusion to the lay-reader arising from the use of such terms as 'ledger assets,' 'non-admitted' and 'admitted assets.' A summary of operations, on an accrual basis for the first time, covers income sources and disbursements in general classifications, with the details left for schedules and special supplementary tables. The balance of the book is devoted to supporting schedules and exhibits."

"Purchases of business life insurance were at a record high in 1950. It is estimated over $1,000,000,000 of new insurance was purchased naming a corporation, partner or business associate as beneficiary, and a sizeable additional volume was set up with a trustee, a relative or, in some cases, the estate named as beneficiary. Many billions of such protection are now owned by hundreds of thousands of businesses from coast to coast. The aggregate represents an important stabilizing force in the business community, o force acting to prevent dissolution or interruption of business

operations upon the death of an owner. At the same time, this business insurance has added materially to the stability of family financial planning for the owners of business. Interest in this protection is extending down into smaller concerns. Conditions growing out of the war production program point to an increased need for such insurance and more agents are being trained in the special technical knowledge required to coordinate the family and business needs of business owners.

"In a recent survey of midwestern business firms in a group of cities of about 100,000 population or less, it was found that three-eights of 580 businesses interviewed had some form of business life insurance; in the case of those employing more than ten persons, nearly half carried business insurance. In another survey of a number of manufacturing concerns, it was found that key man insurance was owned by one-fifth of the firms, covering one or more of their outstanding individuals for amounts of $10,000 to $1,000,000.

"The extent of life insurance ownership varies widely between communities, depending on a score of factors, but largely on income levels and family dependency. This is shown by the analysis of the life insurance information obtained in the 1950 Survey of Consumer Finances, made by the Survey Research Center of the University of Michigan for the Federal Reserve Board and summarized by the Institute of Life Insurance.

"The analysis shows that ownership tends to broaden as the size of the community increases. Residents of metropolitan centers show nearly one-third wider ownership than rural families. Spending units in the metropolitan centers showed 84 per cent ownership; those in rural sections 65 per cent. This spread might be, to some extent, a reflection of income differences.

"Service in the armed forces appears to exert a definite influence on life insurance ownership in later civilian life as veteran spending units showed 82 per cent ownership; non-veteran, 75 per cent. What is more, 48 per cent of the insured veteran units owned $5,000 or more of insurance, while only 27 per cent of the insured non-veteran units oowned that much

"A distinct pattern exists in connection with educations background, spending units whose heads are college graduates showing 84 per cent ownership, high school graduates 80 per cent and grade school 73 per cent This appears to be due less to educational differences than to differences in income and other factors.

"Occupation does not appear to be a major controlling factor, except as it affects income. Spending units whose heads are professional, managerial and self-employed people showed about 87 per cent ownership. But at the same time, units headed by skilled and unskilled workers, constituting one-fourth of all spending units, also showed about 87 per cent ownership. In the classification of clerical and sales forces, 82 per cent owned policies; unskilled workers, 72 per cent; farm operators, 63 per cent; and retired persons, 51 per cent; but these latter groups represent lower earnings in most cases.

"Grouped by income, spending units earning $3,000 or more showed between 90 per cent and 95 per cent ownership; those earning $2,000 $2,999, 79 per cent; those earning $1,000—$1,999, 62 per cent; and those earning under $1,000, 48 per cent.

"Income also showed an influence on the amount of life insurance owned. While 75 per cent of the spending units earning 7,500 or more owned $5,000 or more of life insurance, only 4 per cent of those earning under $1,000 owned that much, and 45 per cent of those earning $4,000—$4,999.

"The average share of disposable income which was put into life insurance premiums fell in a relatively close range in the various income groups. It varied from 3.4 per cent to 4.2 per cent excepting only those with incomes under 1,000, who put 9.1 per cent of income into premiums. There was, however, a wide range within each income group. In most groups, about one-fifth of insureds put between 5 and 9 per cent of their income into premiums, and from 4 to 23 per cent used 10 per cent or more in this way."

"During 1950, the new International List of Causes of Death was applied to life insurance mortality statistics and this resulted in changes in classification of many deaths, especially where two or more causes were involved. The doctor's judgment in diagnosis became more important in the final classification than the previous rules had permitted.

"In the case of ordinary insurance policyholders, the 1950 death rate from cardiovascular-renal diseases was 344 per 100,000, which is materially higher than would have been projected for 1950 on the old reporting basis. Heart disease thus stands more clearly than ever before as the No. 1 killer of today. Second ranking cause of death was cancer, with a 104 death rate for the first time over 100 per 100,000. Accidents came next, with a rate of 40.3. Pneumonia and influenza showed a combined rate of 11.7, about half the 1942 rate. Tuberculosis, once the country's chief scourge, had a death rate of only 7.8. As recently as 1942, the comparable figure was about 19. The diabetes death rate was 7.7. The communicable diseases of childhood were a negligible element, with a 0.4 death rate. In 1950, the ordinary insurance death rate from all causes was 606 per 100,000, compared with 611 the year before. The industrial insurance death rate in 1950 was 633 compared with 641 the year before.

"The 1951 death rate, when finally reported, is expected to be slightly above 1950 but lower than that for any year prior to 1949 and materially below the rate of a decade ago. Some all-time low death rates seem to be in prospect for the year.

"Life insurance death claim payments paid on Korean War casualties during the first year of the war are reported to have been about $10,000,000. More than 8,000 policies were involved. The Korean war claims paid represented less tha 1 per cent of total death benefits paid by the life insurance companies in that period."

LIFE INSURANCE IN FORCE IN THE UNITED STATES BY PLAN

December 31, 1950

(000,000 Omitted)

Plan of Insurance	*ORDINARY*		*GROUP*		*INDUSTRIAL*		*TOTAL*	
	Policies	*Amount*	*Certificates*	*Amount*	*Policies*	*Amount*	*Policies &*	*Amount*
Straight Life*	18	$ 55,000			19	$ 5,000	37	$ 60,000
Limited Payment Life	24	37,000			57	21,000	81	58,000
Endowment	15	22,000			20	6,000	35	28,000
Retirement Income†	2	9,000					2	9,000
Group Term			28	$50,000			28	50,000
Regular Terms	2	7,000					2	7,000
Combination§	3	17,000					3	17,000
All Other‡	2	3,000	**	1,000	12	1,000	14	5,000
Total	66	$150,000	28	$51,000	108	$33,000	202	$234,000

*Whole life, continuous payment.

†With insurance.

§Includes all policies combining permanent and temporary insurance, such as family income, whether the additional term is provided by a rider or included in the policy.

‡Includes extended term and reduced paid-up policies.

£Includes group certificates.

**Less than 0.5

A very complete analysis was made by the Institute of the March 1951 death claims of companies representing 86% of the total U. S. death benefit payments of that month.

(By Amounts of Insurance)

Sex of Insured	*Ordinary*	*Group*	*Industrial*	*Total*
Male	93%	94%	53%	87%
Female	7	6	47	13
Relationship of Beneficiary to Insured				
Husband	3	1	15	4
Wife	60	73	29	58
Child or children	11	10	27	13
Other Relatives	7	11	24	11
Estate	7	3	2	5
Institution	1	0	0	1
All Other	11	2	3	8
Method of Paying Proceeds				
Lump Sum	67	87	100	76
Life Income	5	0	0	4
Annuity Certain	10	11	—	8
Held at Interest	17	1	—	11
Other	1	1	0	1
Sex of Beneficiary				
Male	10	8	33	12
Female	69	85	63	71
Both Sexes Represented	4	3	1	4
All Other	17	4	3	13
Status of Policy				
Premium Paying Basis	79	100	82	83
Fully Paid-up by Plan	18	0	15	14
Reduced Paid-up	2	—	2	2
Extended Term	1	—	1	1
Duration of Policy When It Became a Claim				
Under One Year	2	19	3	5
1 to 5 Years	10	33	13	15
5 to 10 Years	11	18	17	13
10 to 20 Years	26	22	35	27
20 to 30 Years	33	7	18	26
30 Years and Over	18	1	14	14
Policy Size				
Under $500	0	1	71	11
$500 to $999	4	3	27	7
$1,000 to $4,999	38	58	2	37
$5,000 to $9,999	24	24	—	20
$10,000 and Over	34	14	—	25
Age of Insured at Death				
Under 30	2	3	9	4
30 to 39	5	7	6	5
40 to 49	13	18	13	14
50 to 59	25	29	21	25
60 to 69	28	29	27	28
70 and Over	27	14	25	24

As to unfinished business at the end of 1951, aside from the more or less recurrent problems, one of the principal ones not previously mentioned appears to be a revision of the New York State Expense Limitation Law on which both industry committees and the State Insurance Department have been working hard for several years. Other matters include possible extension or revision of the section of the Federal Revenue Act governing life insurance companies, control of agents' commissions and other compensation especially of members of labor unions by the Wage Stabilization and Salary Stabilization Boards, and a proposed War Disaster Act.

Various proposed federal laws which have so far failed of passage include deduction of income taxes at the source on dividends, revision of the Unemployment Compensation Act as to life agents, a proposal for a separate Social Security program for members of the armed forces and their survivors, and permitting of investment up to 20 per cent of the National Service Life Insurance Fund in VA guaranteed mortgage loans.

Property and Casualty Insurance

by

James R. Gregory,

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Important policy changes were effected in the United States during 1951. Perhaps the most important was the adoption of the Additional Extended Coverage Endorsement. Put into effect in a few jurisdictions early in the year, by the end of the year it was in use in more than 40 states and the territory of Alaska.

The new Additional Extended Coverage Endorsement required a 4c country-wide rate and provided the following coverage, subject to a $50 deductible clause: Water damage; vandalism and malicious mischief; damage by vehicles owned or operated by the insured; glass breakage; collapse of building; loss by freezing; fall of trees; and loss due to collapse of floors, walls or roofs, except that caused by subsidence, earthquake, flood, waves or other exterior water.

Because of the low additional premium, the new Additional Extended Coverage Endorsement did not catch on too rapidly with producers. By the year's end, the insurance carriers were still not reporting extensive AECE premium volume

Very few losses were suffered during 1951 under the form — the principal one being in the California flood late in the year. But, as the first major broadening of the Fire insurance contract since the Extended Coverage Endorsement itself in 1938, it had great significance as a step toward an all-risk dwelling policy.

A somewhat similar All Risks Dwelling Endorsement was sponsored at the same time by the Transportation Rating Bureau and sold rather widely in the majority of the states. When attached to the standard Fire and Extended Coverage policy, the endorsement broadens the coverage to include such additional hazards as wind, rain, earthquake, and damage arising from faulty plumbing.

Single Dwelling Policy

There was a considerable trend during 1951 toward a single, cover-all policy for the home. The combination policies, consisting of Fire and Extended Coverage on building and contents, plus theft and liability, were beginning to make their appearance. North America was one of the first in the field, having introduced a package policy in two states — in Pennsylvania in 1950, and in California in 1951.

Concrete evidence of the intentions of the insurers was the formation of two separate advisory organizations to work out rates and other details on the package policies. One, which includes North America, Home, Aetna Fire, Fireman's Fund, and other leading companies, is known as the Multiple Peril Insurance Rating Organization.

It involves 17 major companies and their affiliates. Last year, these companies took in nearly one-fourth of the $6.6 billion premiums of the Fire and Casualty business.

The other organization is called the National Insurance Service Advisory Organization. While the two groups will approach the problem somewhat differently, both point toward the same objective — multiple-type insurance coverage in a single policy.

The practice of putting many kinds of home owners' insurance under one policy is not new — it has been done in Great Britain for more than 50 years. It has been delayed in the United States by lack of multiple-line laws.

The insurers have been waiting for the last major state — Ohio — to pass a multiple-line law. However, Ohio failed to pass a multiple-line law in 1951, so it seems probable that the companies are now going to go ahead anyway.

Once the new package policies start, probabilities are they will catch on rapidly. "Within five years," said one major executive, "most of the new home insurance written will be of the multiple-peril insurance type." Insurance experts feel that by cutting costs, the new policies will enable many home owners to enjoy a wider coverage for their money than they have ever had before. The policies are expected to bring Fire, Theft and Liability protection within the reach of the smallest home owners, who presently have none of this protection.

Flood Insurance

Although 1951 was a year of disastrous floods in the Middle-West, little progress was taken by many companies toward providing Flood insurance.

The need for this coverage was highlighted by the multi-million dollar floods occurring in the Missouri-Kansas river basin in July. Although damage was estimated at $750,000,000, only a few million dollars of the loss was covered by insurance.

A proposal considered before Congress during 1951 was the establishment of a Flood Damage corporation similar to the War Damage corporation of World War II. This would provide reinsurance of flood coverage written by private companies. However, no action was taken in Congress, nor at the close of the year was it expected in the near future. Private individuals and businesses were still without adequate flood protection.

Insurance Losses

Losses were heavy in 1951. The year produced the greatest underwriting loss ever experienced in Automobile Liability insurance, where the total excess of loss and expenses over income in Casualty was estimated to exceed $100,000,000. However, due to greater income from investments, the insurance companies were able to come through the year with surplus unimpaired.

Net earned premium income by 746 major companies in the Fire

insurance classification in 1951 totalled $3,390,259,709. This was an increase of about 8% for the year. But as a result of increased loss and expense ratios, the increased volume of premium actually produced a lower gain from underwriting. The underwriting gain in 1951 for the same group of companies was $16,561,156, as compared to $196,075,919 for 1950.

The same increase in loss ratio apparent in the Automobile Liability business was evident throughout most of the Casualty business. Although earned Casualty premiums increased 20% in 1951 to more than $6,000,000,000, the increase in volume failed to save the insurers from the effect of high loss ratios in A & H, Auto and Workmen's Compensation. The increase in volume was shared by all kinds of Casualty policies. However, Group Accident, Health, Hospitalization and Medical Benefits continued to advance the most.

Rates in most Casualty lines were revised upward in most jurisdictions during 1951. But at the end of the year, further increases were desperately needed. Particularly in Automobile, the effects of continuing inflation would seem to indicate a trend toward almost annual revision of rates.

Overall Casualty loss ratios reported in the semi-official publication *Argus Charts* in 1951 showed: A & H, 69.4%; Automobile, 67.7%; Workmen's Compensation, 77.9%; Burglary, 44.2%; Fidelity, 46.2%; Surety, 35.3%; and Boiler and Machinery, 30.3%.

Revising Professional Liability

During 1951, a major advisory group for the stock insurers, the National Bureau of Casualty Underwriters, started a program for revising and standardizing various kinds of Professional Liability. Only one of these revisions — Druggists' Liability — was promulgated during 1951. The new Druggists' Liability policy provides, in effect, product liability for retail drug stores, including coverages for errors and mistakes in selling, preparing, compounding, and delivering drugs and medicines. In general, Druggists' Liability follows rules for Product Liability. The handling of the coverage has been made standard with a new, special Druggists' Liability manual. The most important change in the policy is to write Product Liability, combined with Bodily Injury and Property Damage, on an "occurrence" basis for incidents occurring during the policy period, regardless of when the product was sold.

Fire Loss High

Fire losses during 1951, as reported by the National Board of Fire Underwriters, totalled $731,405,000 in 1951. This was a new high in the United States. It was about 3% higher than the previous high of $711,000,000, set in 1948.

American reinsurance in foreign companies increased slightly. It was running in 1951 at a volume of something under $100 million. Against this, losses paid totalled about 65%.

Insurance Strikes

1951 was characterized by the largest insurance strike of all time. Some 15,500 agents of Prudential Insurance Company went on a strike

in district offices of the company throughout the country in December. Picket lines were formed, while officials of the Prudential attempted to negotiate a new agreement to correct wages and conditions of employment with the company. This marks perhaps the first major case of industrial unrest in the insurance business in many years.

Multiple Location Advisory Boards

Two new Multiple Line Advisory Boards were formed during 1951. As a result, this problem declined in importance. Both were formed of groups of insurers and were designed to service multiple location reporting from Fire and Extended Coverage business under specially designed rating plans.

No Solution in 1951

1951 should probably be reported as a year when problems brought on by war and inflation first made themselves felt in the insurance business. At the same time, it must necessarily be reported as a year when solutions for these problems — high losses, premium lag, extra office and administrative expense — were not yet apparent.

New Boiler Policy

A new standard policy and endorsement were made effective for Boiler and Machinery insurance in 1951. Then new forms were designed to use standardized language as used in other Casualty lines under the jurisdiction of the National Bureau of Casualty Underwriters. The change also involved classification and word rearrangement in connection with parts of the forms involving technical problems, and rearrangement of certain options in order to conform with practices of insurers in maintaining their records.

Catastrophe Medical Insurance

A very interesting development in 1951 was catastrophe medical protection. This was in answer to a long-standing criticism of most group Hospitalization policies in that they were contrary to insurance principles in that they took care of the small, certain, hospitalization losses, but afforded no protection against disastrous hospitalization expenses. The new policies are being offered by a number of Property Casualty and Life insurance companies. They are non-standard, and generally provide for a deductible of $250 to $500, with maximum insurance of Medical Catastrophe of $2,500 to $10,000. Many provide for the insured to participate in a fixed percentage of the loss.

Almost all these policies are sold on a group basis. By the end of the year 1951, these new policies were being widely accepted.

Social Insurance

by

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Social Insurance

The very phrase 'Social Insurance' is one of those chameleon terms or mother hubbard gowns, that varies the protective coloring at will, or modestly hides from the curious the underlying structural details, whether excellencies or defects. In a year of scandals and concealment, of bravely keeping a 'stiff upper lip,' almost every issue of the *New York Times* deals with some aspect of the personal responsibilities of men and families, which protective employers, helpful unions, civic big brothers and big and little Government have taken over—the sort of thing it has been bad taste to examine too closely. So in this year's review, the number of details set down last year are omitted. This review will be mainly concerned with the gradualist transfer of individual responsibility to Government, from local to world, and the research activities now cropping up on every hand—ending, with apparent immodesty, with my own project—an open, but so far unfinished, book.

1951 *"Is Freedom Worth Two Bits?"*

I. *MAN AND PLAN.*

1. *Leveling Down.*

Lord Beveridge was recently reported in *Time* as regretful as to the too effective leveling down in England and the concurrent lack of leadership. This is the same thesis presented several years ago by Friedrich A. Hayek in "The Road to Serfdom," addressed to "The Socialists of All Parties," with the title page quotation from David Hume, "It is seldom that liberty of any kind is lost all at once," and Lord Acton's "Few discoveries are now more irritating than those which expose the pedigree of ideas" introducing the introduction.

2. *The Man.*

The concern with *man* is the vital center of both the Bible and the key documents of our American Republic. The *Individual, his* capacities, *his* responsibilities, *his* aspirations—his *choice* between good and better, between bad and worse, between the ascent to manhood and the decline to slavery—this is the story of civilization.

3. *The Plan.*

The socialist planner, on the other hand, is an opportunist. He deals with such 'short run reviews' as the abnormal conditions of a major de-

pression, the temporary differences between the spoils of one pressure group and another, the differences between the tangential directions at different points on a steadily changing curve. He may see things *clearly*, but if he sees them whole, he doesn't let on. He breaks down the process of living, the concept of personal stature, into fragments, and he sets out to transfer personal responsibility, bit by bit, from man to plan. We older persons have been able to watch, in Britain, the unfolding of the process of which Lord Beveridge now complains, the unfolding from the germ of the Fabians to the full flower of 'cradle-to-grave.' The planner aims at breaking down resistance, bit by bit. Years ago I drew a graphic outline of the process, that I called "the sixteen rectangles." It showed the *boring in*, the *snowballing*, process. Presented critically to the members of the Social Security Board, as a protest, it seems to have been an uncanny prediction of such attrition.

4. *From Man to Plan*

Under the Social Security Act of 1935, with its major amendments of 1939 and 1950, we can get a partial review of 'community relief.' The town in America had, from the start, accepted the 'mopping-up principle,' when the individual came to want, but it was accepted as the norm that he wanted to take care of himself, that he expected to take care of himself,, and generally he *did* take care of himself.

In the capitalistic economy of the United States the man has increasingly found that there are humps in his desired expenditures, and that there are facilities at hand for leveling out those humps—so that living from hand to mouth was more and more inadvisable and more and more unnecessary. The thrift facilities of the savings bank, building and loan shares, savings bonds, securities, insurance company, home-purchase, coordinate with the credit techniques that spread out the cost of the big hump purchase, both before and after the event—these facilities have steadily grown. Bedazzled by the occasional glitter of the new invention, choices may not always be wise, but the chance that the free will of the man has a chance to operate, that he may have to pay dear for thoughtless action, does not cancel the fact that there are free choices. This holds out hope to the victims of planned economies around the globe. It it no wonder that an occasional escaped victim of such economies, seeing the choices in operation, exclaims: "There just can't be such a country!"

So, I am sorry to give the following sample of increasing relief-mindedness, increased abandonment of self-sufficiency, increased transfer from the local community to the Federal Government. The Amendments of 1950—Social Security Act—were lobbied through Congress in mid-1950. The reporting on 'the Vendor Payments,' now pried loose from basic Public Assistance, lags two months behind the rest of the reporting, so that at this date, July (1951) is the last month for which complete figures are available. I am comparing the outlays for that month with those for a date before the Amendments—April, 1950. The changes initiated by the amendments have not yet all shown up—there was an obviously intentional delay—'more gradualism.'

TABLE I

Monthly Costs of Assistance—millions of dollars

Category		*April, 1950* no Vendor Payts.	*July, 1951* Inc. Vendor Pay.
I. General Assistance—no Federal Subsidy.		$29.5	$16.3
II. Public Assistance—Federal Subsidy.			
1. Old Age Assistance	$120.9		$122.8
2. Aid to Dependent Children	46.4		45.7
3. Aid to the Needy Blind	4.3		4.6
4. Permanent Total Disability			5.4
Total Public Assistance		171.6	178.5
III. Old-Age and Survivors Insurance—Federal		59.6	145.7
Total Monthly		260.7	340.5

TABLE II.

Cost of Assistance—percentage distribution

Category	*April, 1950*	*July, 1951*
I. General Assistance—no Federal Subsidy	11.3%	4.7%
II. Public Assistance—Federally Subsidized	65.8	52.5
III. Old-Age and Survivors Insurance—all Federal	22.9	42.8
Total	100.0%	100.0%

TABLE III.

Cost of Assistance — Federal vs. Non-Federal

	April, 1950 Millions	%	July, 1951 Millions	%
A. Non-Federal Provision				
1. General Assistance	$ 29.5		$ 16.3	
II. Public Assistance	83.4		84.5	
Total Non-Federal	112.9	43.3%	100.8	29.6%
B. Federal Provision				
II. Public Assistance	88.2		94.0	
III. OASI	59.6		145.7	
Total Federal	147.8	56.7	239.7	70.4
Total	$260.7	100.0%	$340.5	100.0%

5. *Trend to Central Government Direction.*

In this examination of a 14-month period of shifting, we see that where the Soverign Government of the State is alone concerned, there seems to be an absolute reduction of General Assistance, a reduction of $13.2 million; where the Federal subsidy carries more than half the financial burden of Public Assistance, there has been a slight increase, $6.9 million; where only Federal Administration is involved, there has been an increase of $86.1 million. Breaking down the Public Assistance figures into State and Local on the one hand and Federal on the other, the non-Federal administration has gone down $12 million, the Federal up $91.9 million—the net increase $79.8 million. The Soverign State has

lost out proportionally, its 43.3% share in April, 1950 falling to 29.6% in July, 1951, the Federal share rising from 56.7% to 70.4% during the period. One small technique, increasing the Federal share, adopted in the 1950 Amendments, allowed benefits to be alloted to guardians as well as to children. While increasing the number of beneficiaries, there was little change in the family allotments, a decrease in the per capita grants, and an increase in the proportion of the Federal subsidy. The over-all taxpayer who meets local, county, state and Federal imposts is perhaps less deceived by such shift than is the 'social worker,' who seems inclined to consider the Federal grant device "a great invention" for painlessly increasing the available funds.

Lest the use of "insurance" as a big brother to public assistance should seem inadvisable, it may be stated that the "insurance beneficiaries" now receiving the benefits can expect to receive some 40 or 50 times the sum of their aggregate personal tax payments—essentially gratuities these! This gratuities attitude underlies such presentations as "You are Richer than You Think," in the 'Nation's Business' for October, 1951, or "Congratulations — You're an Heiress" in the January 'Good Housekeeping' — treating these grants as windfalls from an indulgent Uncle Sam.

Lately, too, the *Controls* of the *emergency* seem to mark another road to Federal Government direction—the employer's 'fringe benefits.' During World War II there was the excuse to 'integrate' private retirement plans with OASI. Currently such minor lines as Hospitalization and Group Life and Group Temporary Disability have fallen into direction from the Wage Stabilization Board.

In much the same way as England has moved into a large degree of 'welfare-state-itis' with the direct assistance of the Conservatives, so in America we have found the doctrine of 'me-tooism' aiding and abetting the 'march into socialism' here.

6. *First Steps.*

The $340 million a month under the various types of assistance—including the OASI—totals about $4 billion a year—still less than 2% of the National Income. In the 1953 Budget for the Federal Government only 2½ billion is allocated to 'Social Security, Health and Welfare'—most of the expected costs being otherwise accounted for—and with little evidence of any appreciation of the drug addiction involved. As a Japanese friend says, "Social Security has a tendency to grow and extend its scale unconsciously, just like we make a snowball, rolling on the snow, on the ground. This tendency will naturally be intensified, if social security is applied as a competitive means in politics."

This winter there are numerous trial balloons, aimed at increasing the competition between Old-Age and Survivors Insurance and Public Assistance. The completion of the year 1952 should show many more having surmounted the very threshold to OASI now represented by only 1½ or 2 years of nominal tax payment. Talking about the maximum of $80 a month as though it were too low, and considering some 10,000,000 persons purporting to have passed age 65 and being jobless, a yearly budget of $10 billion seems 'just around the corner'—just for old-age. The 'life insurance protection' outlined in last year's Appropriations Hearings as '$250 billion to be effective at the end of this year' suggests the mag-

nitude of the 'take-over' from private business. The last published Life Insurance Fact Book showed as of the end of 1950 only $244 billion as in force in all companies—Ordinary, Industrial, Group, Fraternal, Assessment, Savings-Bank. The current recommendation for a 10% increase seems to mean $275 billion for OASI—with other Federal protection perhaps making the total $350 billion.

7. *And, Now!*

Ever since the Iron Chancellor adopted so much of the appeals of socialism in 'Social Insurance,' and started to make the appeal of 'a contribution toward' instead of 'the premium for,' ever since the British liberal employers mapped out pension plans for their employees; there has been a steady nibbling away at a man's stature. Now the *man* has to defend himself against the combination assumption of his personal responsibilities on the part of the friendly employer, the managing union chief, the paternalistic Government, local, State and Federal. President Parkinson of the Equitable has again pointed out that, in terms of present percentage of National Income, we have slipped behind in life insurance in force in the past twenty years. The 'march into socialism' is made more certain—as Adam Smith outlined long ago—by debasing the currency.

The Chamber of Commerce of the United States in a December Business Action maps out a spreading Welfare Tree—covering most of two pages, with, down in the lower right-hand corner, John Q. Public, plaintively saying: "Gee, time to prune."

The full results of the 1950 Social Security Amendments are—to the informed—staggering, but staggered to defer the impact. Exactly what will be the situation a year hence is veiled, even to the Administration. Such is the fog and complexity that follows this form of planning. The full appeal to personal cupidity in the recent propaganda efforts seems sadly akin to the lure of the more professional gambler, for whom no one just now has a good word.

II. *IS FREEDOM WORTH TWO BITS?*

1. *Secret Spending.*

On October 22, 1951, Senator Van Ness, President pro tem of the State Senate of Indiana, outlined in Washington, D. C., to the Tax Foundation, Indiana's conclusions on the loss of State Sovereignty under the Social Security Act. He told how the Indiana General Assembly in 1943 had set up a bipartisan legislative welfare investigating commission —to inspect the conditions under Federally subsidized Public Assistance. Their analysis of the effect of secret handling of the combined Federal, State and local funds, with many of the responsible public officials barred, by the Federal law, from access to the basic records shows the demoralization that stems from such 'hush-hush.' Indiana Senate Bill 86, passed in both houses under a Republican majority, was vetoed by a Democratic Governor and passed again over his veto. The State Act declares the Welfare rolls to be public records, but limits the use of these to matters pertaining to responsible administration of the Welfare program—actually prohibiting their use for political or commercial purposes, and forbids newspaper publication of the names. Indiana's use of the 'invention' of Federal grants-in-aid—whereby more local taxes route

to Washington—'and come back clipped'—showed only about half as many aged and child beneficiaries proportionally as the nation as a whole. Yet even with his initially favorable showing, the threat of opening the rolls made a reduction, over a year or more of time, much larger than in the country as a whole—as more became eligible to 'insurance' benefits from OASI.

Then, after a warning from the Federal Agency's Administrator, and a hearing held by him as to whether the new Indiana Law was in conformity with the Social Security Act, further Federal grants to the State were withdrawn, effective July 20, 1951. The Administrator then attended the Conference of Governors—under the leadership of "Tom Dewey of New York" at Gatlinsburg, Tennessee, and so presented the case for Federal control of such activities that the Governors unanimously reaffirmed their conviction as to their right and responsibilities for handling their own state matters of this sort for themselves, in accordance with our traditional constitutional setup of limited Federal powers.

The Jenner Amendment, added to the Revenue Act of 1951, (Public Law 183, approved October 20, 1951) forbade further disapproval of State decisions like Indiana's Senate Bill 86, by the Federal Security Agency.

2. *"Is Freedom Worth Two Bits?"*

Before the Amendment of Senator Jenner had become law, an Indianapolis newspaper ran an editorial entitled, "Is Freedom Worth Two Bits?" The Editor had discovered that the most grants from the Federal Security Agency ran $20,000,000 a year or something like 1⅛ cents per person per day among the Hoosiers. The editorial helped to stiffen Hoosier backbones, as to carrying on their fight against an interference with their State responsibilities. Illinois and Alabama had already followed the Indiana example, with the proviso that the reduction of secrecy should not lose them Federal funds—while Georgia and Oklahoma joined the ranks of the States able to recognize a bad provision when they saw it—memorializing the Congress for the right to correct state abuses in relief by abandoning secrecy. Indiana's Republican State Committee, following with a further report on the relation of Indiana's tax payments to the Federal Government and the sum total of Federal grants-in-aid, showed a four-year ratio of grants to taxes of 6½%. They concluded that dropping the whole philosophy of Federal grants would prove that "Freedom was worth two bits." Such faith in simple arithmetic could spread.

3. *The Significance of Indiana.*

The Hoosiers have taken time out to think. They began their analysis in 1943. They got their study done. They compared with their neighbors. They found they were not as bad as most states—much, much better than the states of Washington, California, Colorado, Oklahoma and Louisiana. But they were not ready to sink back into lethargy due to the happy discovery that others had damaged even more human lives they they—through this shameful secrecy Salvation and the conviction of sin are highly personal things. Indiana followed a Christian line of action, aimed at reducing immorality in her state. They had uncovered sin. They tried to correct it—not gloss it over. They have not hidden behind the excuse that the OASI program—one-sided, complex, ineffective—had by the obsurdities in its capricious make-up led

to the extremes of Public Assistance. It is undoubtedly true—but they had been told that Public Assistance was essentially Federally subsidized relief—and as relief it lacked the open honesty of community-handled administration. Here it was 'something to be ashamed of, something to hide.' And they had found abuses due to that attitude. It was—as they have well developed—the basic chicanery of subsidy and open bribery, induced by the Federal Act, which was to be corrected. To the rest of the nation, Senator Van Ness says:

> "I say to you that this representative form of Government, under which we have been privileged to live, to work and to progress, and under which these United States have become great, is the best Government on the face of the Earth, and worth any struggle in which you and I may be involved. In the words of Abraham Lincoln,
>
> > 'I appeal to you to constantly bear in mind, that not with politicians, not with presidents, not with office-seekers, but with *you* is the question; shall the Union and shall the liberties of this country be preserved to the latest generations?' "
>
> Here—at—last may be the cloud—the size of a man's hand?' "

III. *OUR COUNTRY AND THE REST OF THE WORLD.*

1. *The UN.*

Senator Bricker and the American Bar Association have been examining the defeatist view as to the individual which allots him his holidays, home, this electricity, his insurance, from the State—and that in World alliance. The Senator has written of "open jury trials" vs. "star chamber justice," of the "Freedom of the Press" in addresses to the Senate of the United States and of "UN Blueprint for Tyranny" in a recent Freeman. I have wondered about Beveridge's 'leveling down' in Britain being expanded to the rest of the World. Only a sadist could rejoice at discarding our priceless heritage of freedom in return for the 'dangling carrots' of Britain, Germany, France or Czechoslovakia. Given a majority of Marxists and pseudo-Marxists in various international councils—there seems more than a bare chance for the demolition of our free progress. Nehru's suggestion that capital invested in India might not be expropriated within 10 years—while expropriation takes place elsewhere—is far from cheering. The loss of sovereignty in our states here is not a good omen for World organization.

The leveling among our states has been adroitly approached. Some 90% of the citizens seem to be regarded by the Planners as inept, incompetent, unable to handle their own problems of personal budgeting. If 90% of the citizens need subsidy—and that is what they are saying about the current and proposed 'welfare state items'—what a shock it is going to be to the citizens of an expectant coterie of waiting nations, that we cannot take care of ourselves.

They are—some of them—blithely allocating from 20% to 40% of their income to various social and labor benefits for Government administration—and lately they seem to have been expecting us to meet for them other slightly less personal responsibilities.

Senator Bricker doesn't discuss this financial level. His case is valid on the level of the human spirit.

2. *ECA and Point 4*

As we are watching our currency deteriorate, our belief in the strength of our citizens drops to a new low. Our sense of contractual integrity has slumped. Playing with the Point 4 countries of the world seems sure to build up heartbreak for them and for us. If our citizens are so poor as to need almost universal subsidy for themselves, how can they go out to support the world? This impasse is almost the nadir of unreason. Both these things cannot be true. If what has been said as to incapacity to meet personal responsibilities is true, our foreign commitments are already bankrupt. The morons who swallow "Congratulations—you're an heiress" are in no condition to be the Mary Worths or the Dorothy Dixes for the simple-minded outside the United States. Such helpless mortals bid fair to go the way of the effete Romans when faced by the stronger hitting-arm of the 'barbarians.' Many of the helpful-minded Americans visiting the distant scenes of the American taxpayers' money are already sunk in the hand-out philosophy of the FSA—co-ordinate with a disbelief in American capitalism—which is about the only hope of the world. The use of the twisted fieldglasses continues. Bankrupts don't pay 100 cents on the dollar.

3. *The ILO*

The International Labor Office has consistently believed in 'National Planning' and Government Administration. When I visited its offices in Geneva in 1937, in Montreal in the '40s—before our 1935 Social Security Act had so clearly developed its kinship to the Socialism of Europe—I was baffled by the central motivation of the ILO. Now that I have followed the Marxian quality of their pronouncements, of their activities —have read the Marxian statement that

> "the democratic concept of man is false because it is christian. Democracy holds that each man is a soverign being. This is the illusion and dream of Christianity."

I more fully grasp some of the possible significance of the organization. Last year several American business men attended the 34th Annual ILO Conference at Geneva. Three of them—McCormick, McGrath and Knowlton—have outlined for us the obvious results of socialist Government representatives and socialist Labor representatives 'allowing' employers—some truly capitalist and others from heavily managed economies—to attend. It is hopeful that many of the employers seem to be regaining their belief in free enterprise and competition. These 'captive employers' frankly envy us what Ed Lipscomb calls "The Personal Practice of Freedom." I would that what these men said of Europe applied less to some attitudes expressed as to our own country. But these three men should help us to awake.

IV. *RESEARCH.*

The contrast between Man and Plan, between the overemphasis on rights and the underemphasis on duties, between the negative destructive 'enlightment' of Karl Marx and the positive constructive, competitive capitalism of Adam Smith — the leveling-down process — lead us beyond to the desirability of *knowing* more of the shifting properties of the polarities:

1. death-survival
2. sickness-health
3. idleness-work

Much is being written as to possible meanings of such terms as:

1. money
2. wages—direct and fringe
3. savings
4. investment
5. insurance
6. relief
7. retirement

Much of the quantitative measurement seems to fail to qualitative Hagelian rationalization, while judgments are all too much determined from such mometary observations as my 14 months comparison above, as evidenced by the calm recommendations of $5 a month increase in OASI benefits—and probably tomorrow in Public Assistance Federal grants. More spending, more taxes, more inflation, seems the unimaginative bid for confidence.

There are three pension analyses in progress — Twentieth Century Fund, National Planning Association, Brookings Institution. There is a five-year analysis of late-life mortality among 'workers' and 'retired lives.' There are many University-and Foundation-sponsored analyses of the values of later life—'Gerontology.' There has been the comprehensive Jenkins-Lew paper on Annuitants' mortality. There are many other mortality projects—including the decennial life tables.

What superficially seems absent is the conjunction of the disciplines represented by the 'insurance-actuarial-demographic' cost-minded professions and the humanitarian social worker, sociologist, Messianic mood of pragmatism.

There is a hint of such conjunction in the Senate Finance Committee's study commission on Social Security, in the preliminary Dean Clark report, in the Magnussen Commission on Health, the Federal Reserve Board's Consumer Purchases studies, the special and periodic reports of the Bureau of Labor Statistics and the Bureau of the Census. There are the United Nations Statistical Reports. There are committees on Social Security in the Chamber of Commerce of the United States and in smaller areas, in the Insurance and the Retail Dry Goods Business, and elsewhere—but all too often they seem to rely more trustingly on 'revealed truth' than on sweaty study. So far the odds are with the Federal Planners, whose bits of revelation command a larger purse, and a louder voice. So far, the apparent over-all acceptance of the oversimple Marxian philosophy of labor exploitation has been applied to subsidize labor and even 'bosses' with far above the average per capita income. It has produced a series of shamefaced subsidies, of petty bargains, of tripartite finance, of fringe benefits that seem to defy full rationalization. There is room for, and promise of, a more American comprehension of national sharing in the recognition of, and evolution toward, catastrophic, presumptive, personal needs.

V. *TAXATION AND SOCIAL BUDGETING.*

Since I am writing this review—it is obvious I know the most about my own study of a Federal assumption of benefit schedules in relation perhaps to five catastrophic personal situations:

1. presumptively jobless old age
2. death—leaving dependents
3. extended disability
4. extended unemployment
5. huge medical and surgical costs.

Its tenor has been suggested by two papers presented to insurance groups—by "Death 'n' Taxes" and "Death 'n' Taxes—II" by a Tax Review number on "Social Security—Magic or Muddle," by not-as-yet-in-print comments to the Society of Actuaries last November on the 1950 Amendments to the Social Security Act, and by my various metered bits of testimony before the Congressional Committees. I am now in receipt of a Guggenheim Fellowship which has met part of my expenses of the extended study long awaiting the free time to carry it through. It is my expectation that I shall complete the review of those aspects I had outlined before beginning the assignment, that I shall digest the additional material steadily turning up, and that I shall sum up the subject in at least one book—and several papers during the coming year.

Just established in Canada is a social budgeting program for Old Age Benefits—$40 a month at age 70—with specific determination upon the taxation types for raising the funds.

The Social Budgeting of the forthcoming book gives priority to the consideration that personal freedom comes first, that this American nation would not knowingly discard that freedom for any fancied program of security based on governmental enslavement—and that Social Budgeting, as apt to be adopted, would involve the conscious use of taxation to meet certain limited objectives. Benefits should be below subsistence—the aggregate yearly costs should not exceed 5% of the National Income—half the traditional rate of tithe—and the Federal concern should contemplate only catastrophic situations.

The recommendation is apt to be for less of Karl Marx and more of Adam Smith, for less reduction of individual responsibility and more responsible personal freedom.

Yes—FREEDOM *IS* WORTH TWO BITS.

Part III — Association Activities

Minutes of Annual Business Meeting

The business meeting was held December 27, 1951, at four p.m. at the Hotel Bradford, Boston, Massachusetts, the vice-president, Professor C. M. Kahler presiding in the absence of Professor Erwin A. Gaumnitz, the president.

The minutes of the last annual meeting as printed in the March, 1951, issue of the *Journal*, were approved.

Treasurer's Report

A mimeographed copy of the treasurer's report was submitted and approved. (A copy of the report is reproduced on page 89.)

Reports of Standing Committees

Reports of standing committees were next called for. Neither the Committee on Collegiate Preparation for Insurance Careers nor the subcommittee of that committee had a report to submit. The Committee on Professional Standards in Life, Property, and Casualty Insurance likewise had no report to present.

Professor Kahler, reporting for the Committee on Insurance Teaching Aids, stated that the principal activity of that committee had been to work with the associations furnishing kits of policy forms and that plans had been made to continue this project. He stated that plans were in the making for providing next year, a general kit adapted to the needs of survey courses, to include life as well as fire, marine and casualty forms, in addition to the fire and marine and casualty kits previously provided.

The secretary-treasurer read a communication from President Guamnitz regarding the work of the Committee on Research. Professor Guamnitz suggested on behalf of the committee that the Committee on Research serve as a clearing house of requests for research by companies or associations to have projects undertaken by faculty members or graduate students from colleges or universities. After discussion it was moved and passed that the committee be directed to serve as a clearing house for such projects, calling them to the attention of members for such action as might be taken in individual cases.

The secretary-treasurer reported for the Special Committee on the *Journal* that no work had been done by that committee during the preceding year.

Report on Summer Fellowship Program

Professor Harry J. Loman, chairman of the Committee on Summer Fellowships for Insurance Teachers, stated that the report of his committee would be made in two parts. Part I of the report was presented by Professor Loman, as follows:

"When the American Association of University Teachers of Insurance at its annual meeting in 1950 approved the report of the special committee on Summer Fellowships for Insurance Teachers, it

also directed the committee to take the necessary steps to implement the program. Therefore, on January 3, 1951 the insurance company associations which had previously indicated their interest in such a program were informed of the action of the American Association of University Teachers of Insurance and supplied with copies of the committee report.

"At the same time the Chairman of your committee offered to meet with the representatives of the insurance company associations as soon as the personnel of the Coordinating Committee was determined.

"Subsequently each of the respective associations — The National Board of Fire Underwriters, the American Mutual Alliance, the Association of Casualty and Surety Companies, and the Life Insurance Agency Management Association — chose their administrative committees and designated a representative on the Coordinating Committee (as provided in Section VI, of the Report of your special Committee on Summer Fellowships).

"The National Board of Fire Underwriters and the Association of Casualty and Surety Companies chose as their representative, Harold Jackson, President of the Bankers Indemnity Insurance Company. He was aided in the handling of the interests of these two company groups by Harold Philips from the Casualty Association and George Traver of the National Board.

"Chairman of the administrative committee for the American Mutual Alliance was Henry D. Locke, Vice President of the Liberty Mutual Insurance Company. He represented this Association on the Coordinating Committee. His aide from the American Mutual Alliance was John S. Hamilton, Jr.

"The life group appointed H. G. Kenagy, Vice President of the Mutual Benefit Life Insurance Company, as Chairman of their administrative committee and representative on the Coordinating Committee. Lawrence Jackson of the Life Insurance Agency Management Association was Mr. Kenagy's administrative deputy.

"The Chairman of the A.A.U.T.I. Summer Fellowship Committee acted for the A.A.U.T.I. on the Coordinating Committee.

"The first meeting of the Coordinating Committee was held in Newark on February 21. At this meeting the insurance association members indicated the desirability of naming a member of the A.A.U.T.I. to serve as chairman of the Coordinating Committee. This appeared to be inconsistent with the intent of Section IX of the report of the Committee on Summer Fellowships which stated that the A.A.U.T.I. should not administer the plan, and further provided that the chairman of the A.A.U.T.I. Summer Fellowship should be an ex-officio member of the Coordinating Committee, for liaison and advisory purposes.

"However, the request for this departure from the adopted report seemed meritorious and it was referred to the Executive Committee of the A.A.U.T.I. with an appropriate recommendation. As reported in the latest issue of the *A.A.U.T.I. Journal*, the Executive Committee permitted this deviation and appointed Dean Laurence J. Acker-

man as an additional member of the Summer Fellowship Committee and to serve as chairman of the Coordinating Committee.

"Section IX of the report of the special committee on Summer Fellowships made provision for periodical reports to the A.A.U.T.I. on the progress and development of the plan. As chairman of the Coordinating Committee, Dean Ackerman has prepared a comprehensive report of that committee's activities. Its contents cover the progress and development of the plan to date and therefore it is submitted as Part II, which is the important part of this report."

After the conclusion of Dr. Loman's presentation of Part I of the report, copies of Part II were distributed to those present at the meeting. Dean Ackerman stated that copies subsequently would be mailed to all members of the Association.

The members present discussed both parts of the report at some length, commending both the chairman of the committee and the chairman of the Coordinating Committee for their very effective work on this important program. It was unanimously agreed, on motion duly seconded, that the Summer Fellowship Program be continued with Dean Ackerman again serving as chairman of the Coordinating Committee for the ensuing year.

Council for Professional Education for Business

At the meeting on December 28, 1950, when Professor Guamnitz reported on the proposal for a "Council for Professional Education for Business" the A.A.U.T.I. authorized the appointment of a representative to act as liaison with the American Association of Collegiate Schools of Business to learn future development and to report any specific proposal for action. Dr. Loman was appointed as the association's representative and he reported on the meeting of the proposed council which was held on December 27, 1951. He said the 1951 meeting was scheduled originally as an organization meeting, but the lack of a well defined program of purposes and activities for the council resulted in a motion that requested the Standards Committee of the American Association of Collegiate Schools of Business to formulate such a program, and further provided that, at least during the early development of the Council, it should be known as an advisory body to the A.A.C.S.B. Because of the probable long run advantages of such an organization Dr. Loman recommended that we continue to have representation on the proposed advisory council. On motion, duly seconded, the association unanimously approved this recommendation.

Election of Professor Makoto Suetaka to Honorary Membership

Acting upon the nomination of Dr. S. S. Huebner, the Executive Committee recommended to the members that Professor Makoto Suetaka, Dean of the School of Commerce, Waseda University, Tokyo, Japan, be elected to honorary membership. The recommendation was unanimously accepted and the secretary directed to inform Professor Suetaka of his election.

Election of Officers

The report of the Nominating Committee having been submitted to all active members according to the procedure outlined in the bylaws, and ballots having been duly returned, Dr. Dickinson was called to the chair and a committee of tellers was appointed to make an official count of the ballots and to present the results. The committee of tellers, consisting of John M. Breen and Robert P. Stieglitz reported 112 ballots cast for the offices of president, secretary-treasurer, vice-president and member of the Executive Committee. The result as reported was the election of C. M. Kahler, President, Laurence J. Ackerman, Vice-President, J. Edward Hedges, Secretary-Treasurer, and Member of the Executive Committee, term to expire 1954, Paul H. Abbott. Dr. Dickinson declared these officers to be elected and turned the chair back Vice-President Kahler.

Acknowledgements

The following acknowledgements were moved and passed: To the Committee on Local Arrangements, of which Professor Warner W. Danforth served as chairman, for the excellent facilities and arrangements provided; and to the Eastern Underwriters Association for providing the stenographic service for reporting our business meeting.

The meeting closed with the vice-president's expression of appreciation of the work of all those who had assisted him in preparation of the program and those who so graciously consented to participate.

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Professor Hampton H. Irwin, Wayne University
Dr. Frank Lang, Association of Casualty and Surety Companies
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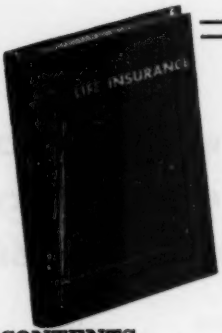

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